

Sustainability in Business

Buzz-Word, Excuse or Obligation?

Zurich, August 04, 2010

Learning Objectives of Session

To understand

- the three pillars of entrepreneurial sustainability
- the entrepreneurial responsibility and dilemma
- some of the aspects of the regulatory framework
- the responsibility and the existing freedom for entrepreneurial actions

Sustainability in Business

1. Introduction: E³

2. Economics & Business Excellence

3. Ecologics & Business Excellence

4. Ethics & Business Excellence

5. Entrepreneurial implications

Definition: Sustainability

Sustainability is:

"..development that meets the needs of the present without compromising the ability of future generations to meet their own needs"

***World Commission on the Environment and Development
(a.k.a. Brundtland Commission)***

„Sustainability“ translated for Entrepreneurs

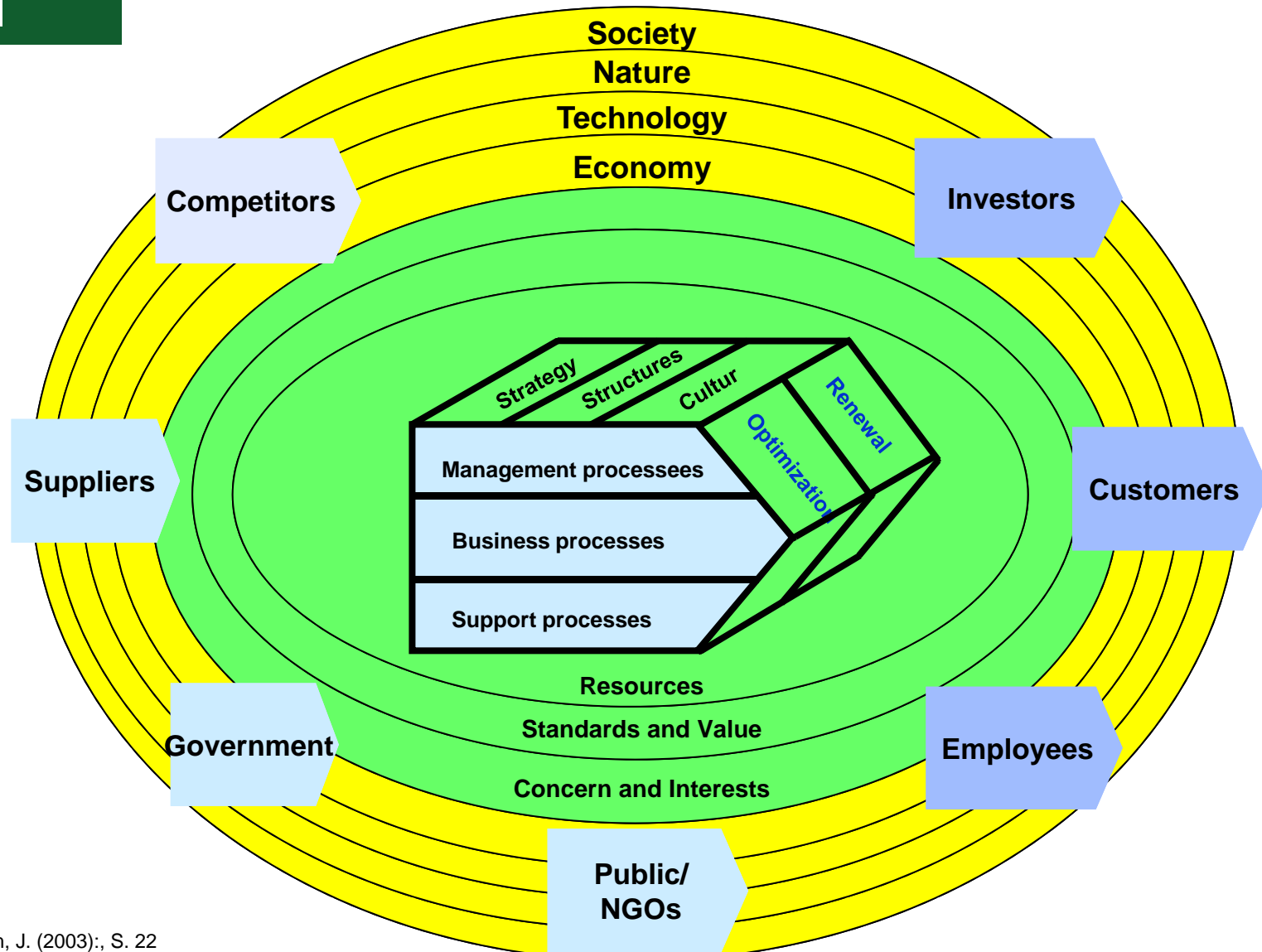
To create value for

customers,
co-workers and
shareholders / owners

- in an **ethically responsible way**,
- **today and in the future.**

Hence, profitable businesses are the first and mandatory pillars for a sustainable world. (Stephan Schmidheiny)

St.Gallen Management Model



Quelle: Rüegg-Stürm, J. (2003):, S. 22

The Entrepreneur

Leader + Communicator + Manager

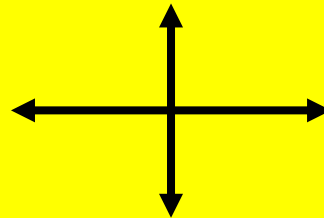
vision

intuition

conviction

determination

courage



objectives

allocation

knowledge

perseverance

organisation

Do the right things Make them known

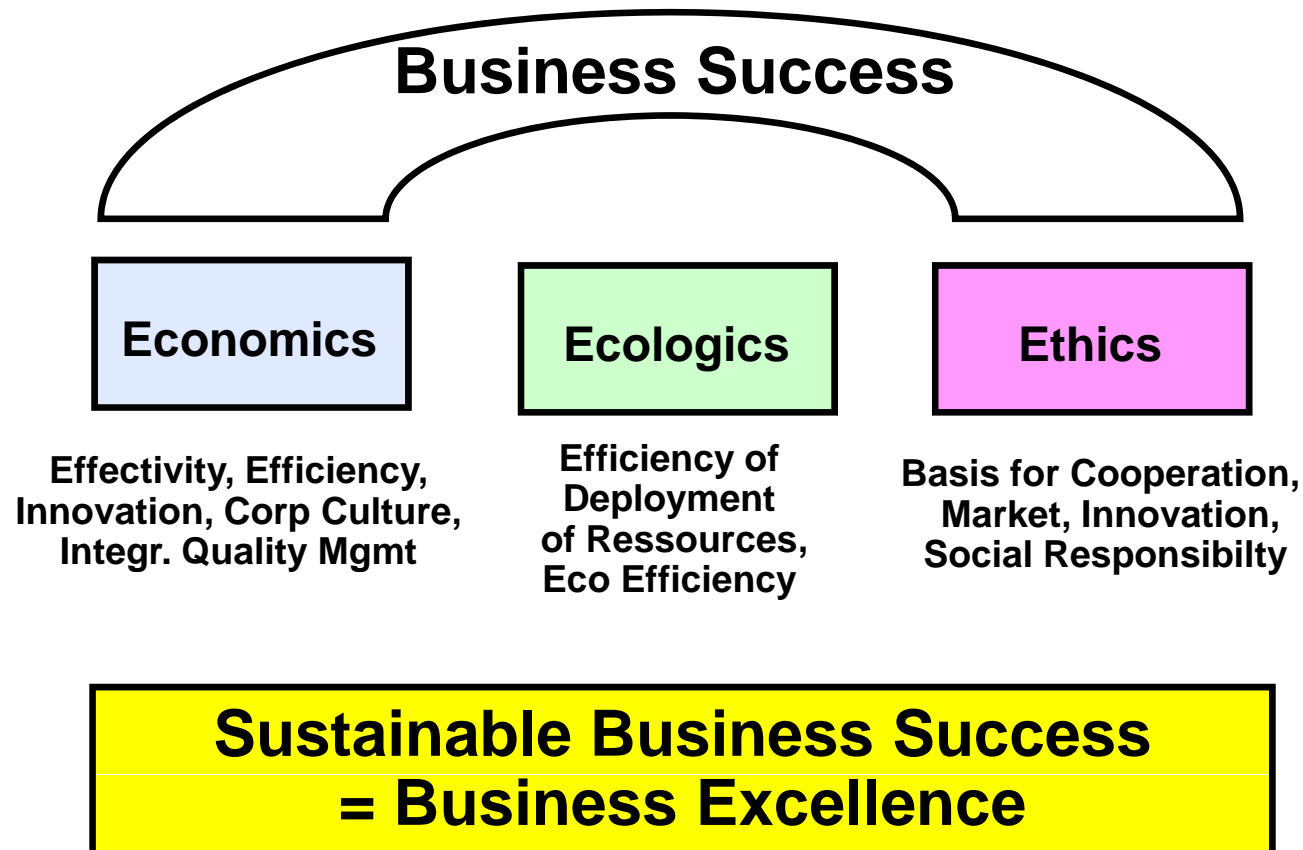
Do things right

The Entrepreneur's Goal is to WIN =

Business Excellence



Entrepreneurial Sustainability - The Dimensions (1)



Entrepreneurial Sustainability - The Dimensions(2)



E³

Economics

Ecologics

Ethics

Sustainability in Business

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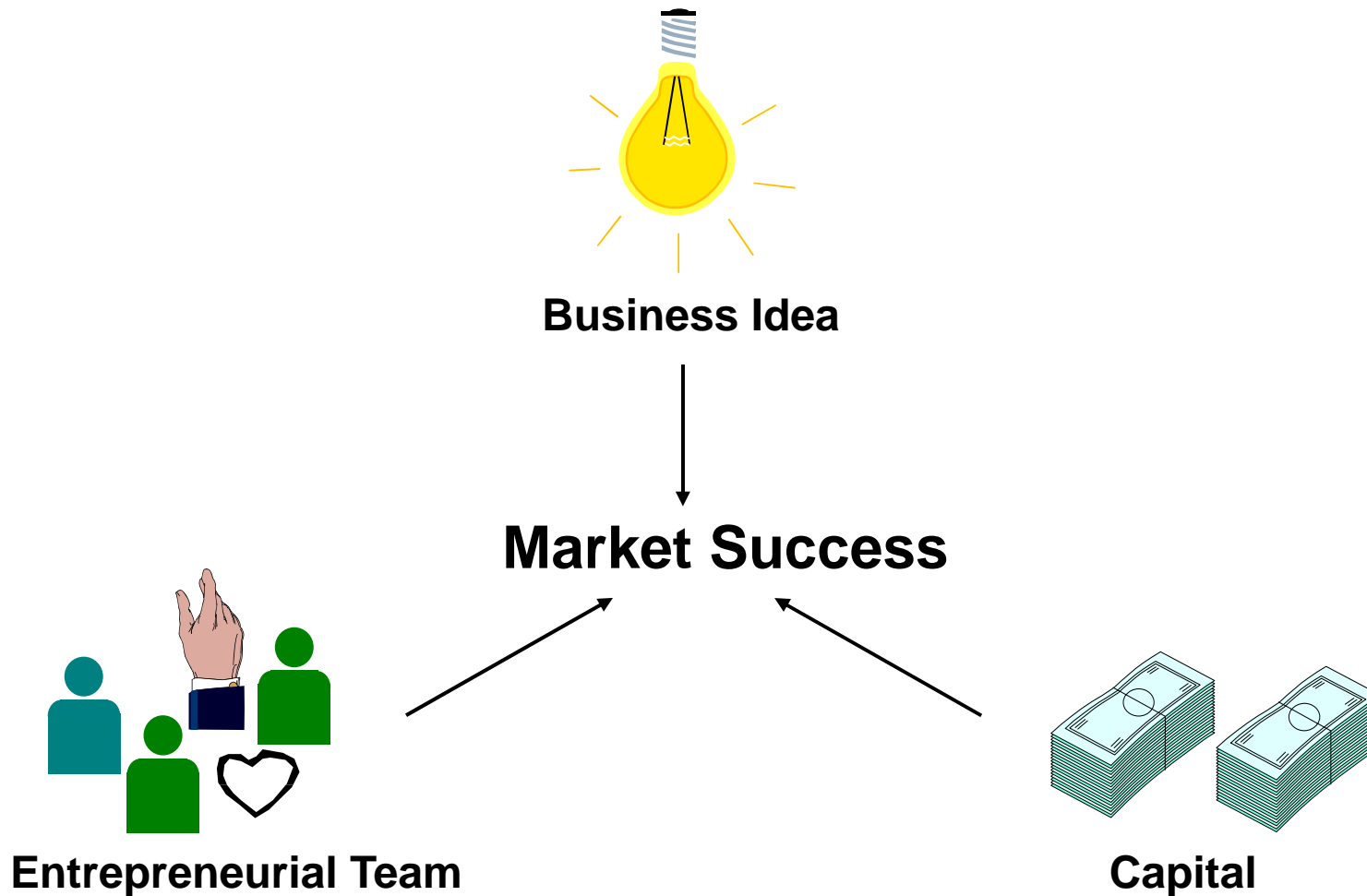
5. Entrepreneurial implications

Economics & Business Excellence (1)

Sustainable Business Development:

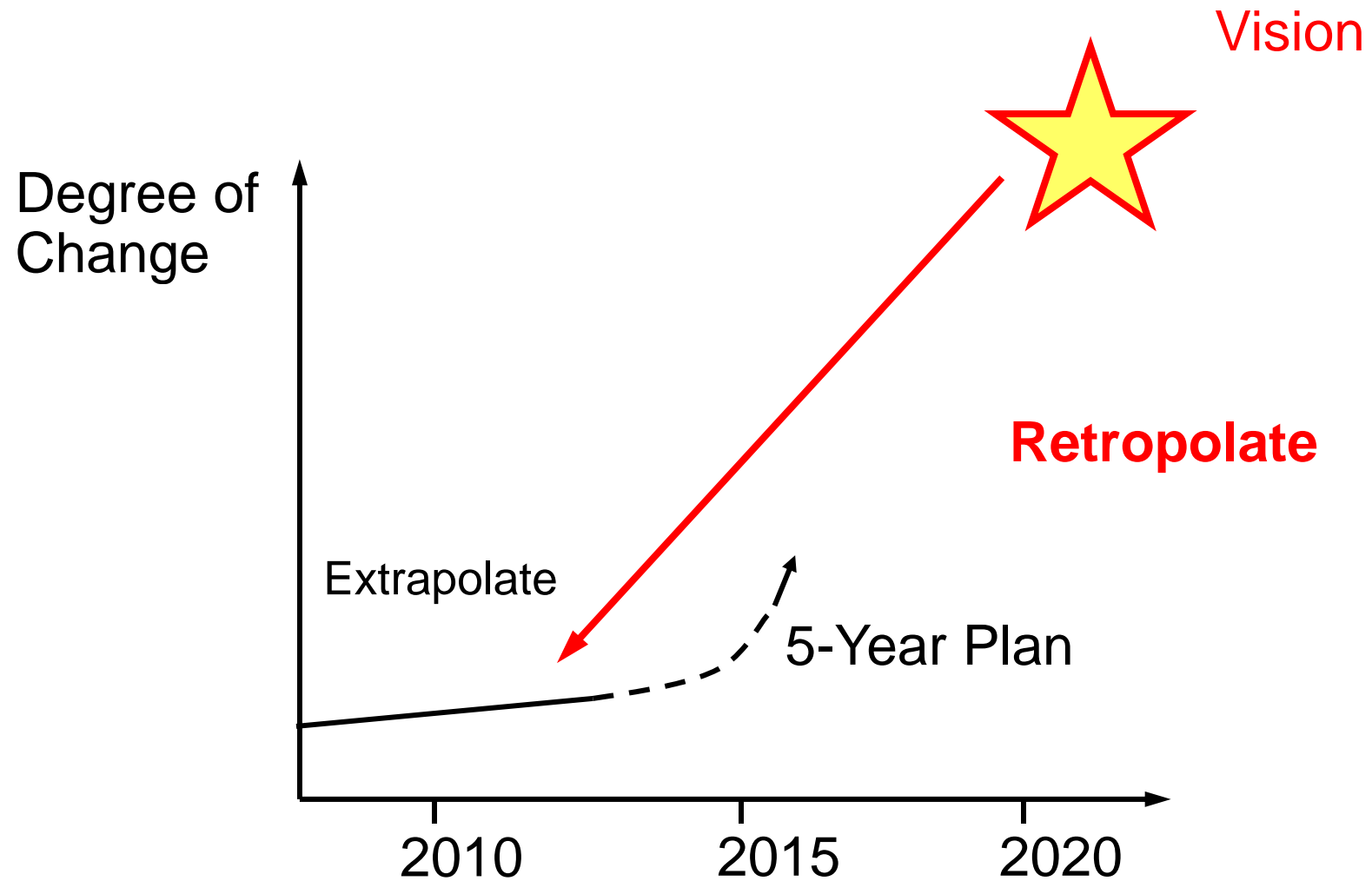
- This is the aim (and dream) of any Entrepreneur (and of your study efforts)
- To be and remain the best, implies continuous improvement:
Business Excellence Models are Cockpits for Entrepreneurs on that Journey

From an Idea to Success



Source: McKinsey & Company, Inc.,

Vision



Entrepreneurial Value Creation: Remington

Remington's Vision



„... to be the best supplier of mechanical systems to create a faultfree typewriting.....“

Problem: narrow scope prevents timely adaptation to new technologies (electric, electronic,...)

Entrepreneurial Value Creation: Hilti

- ... active in the building / construction sector
- ... strives for enthusiastic customers
- ... wants to be recognized as a value creator for its customers...



Entrepreneurial Value Creation: GE (General Electric)



We bring good things to life.

Takimoto, Head R & D Toyota Motors, uses a fairy-tale as vision

Fairy-tale

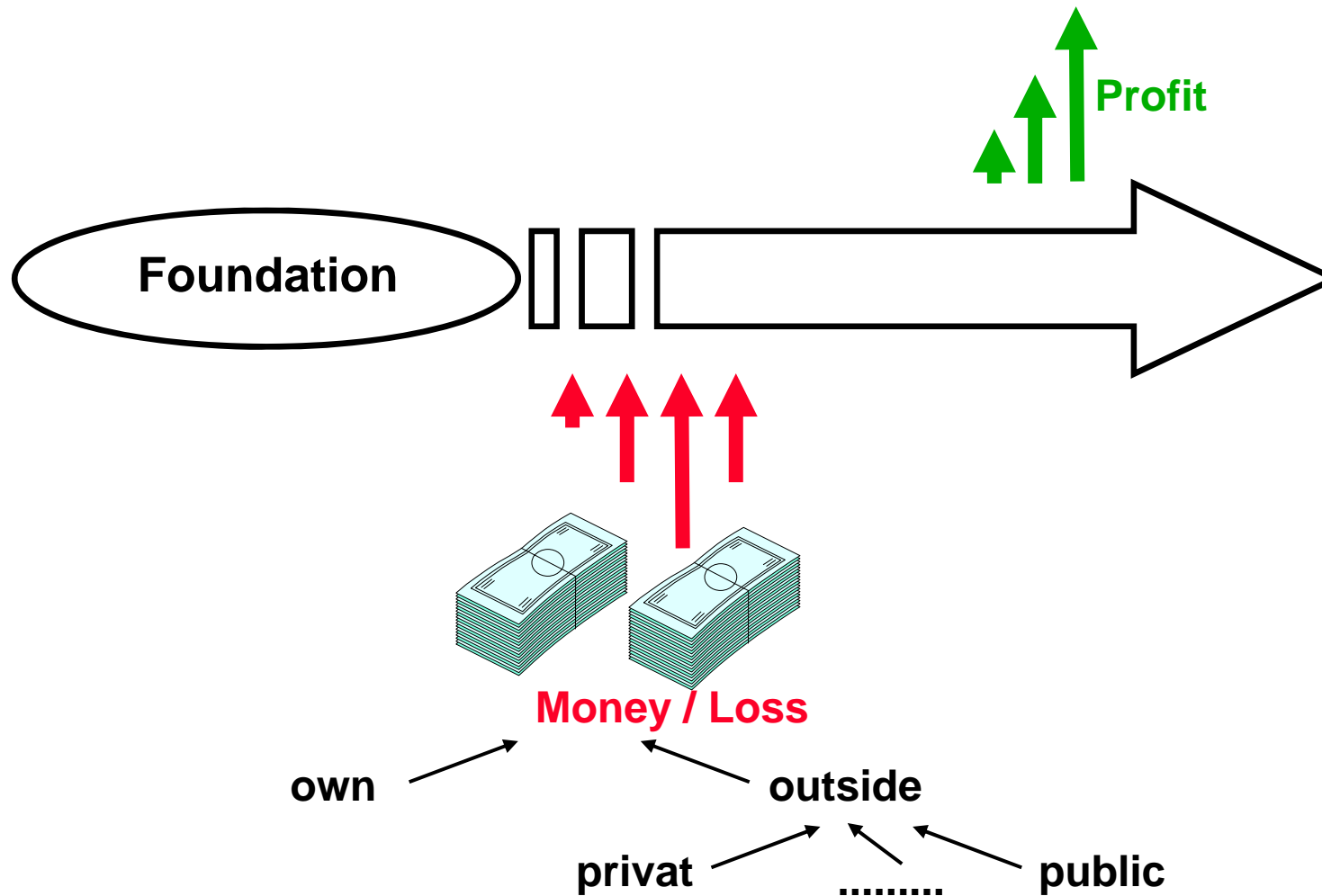


Vision

Car = Magic carpet

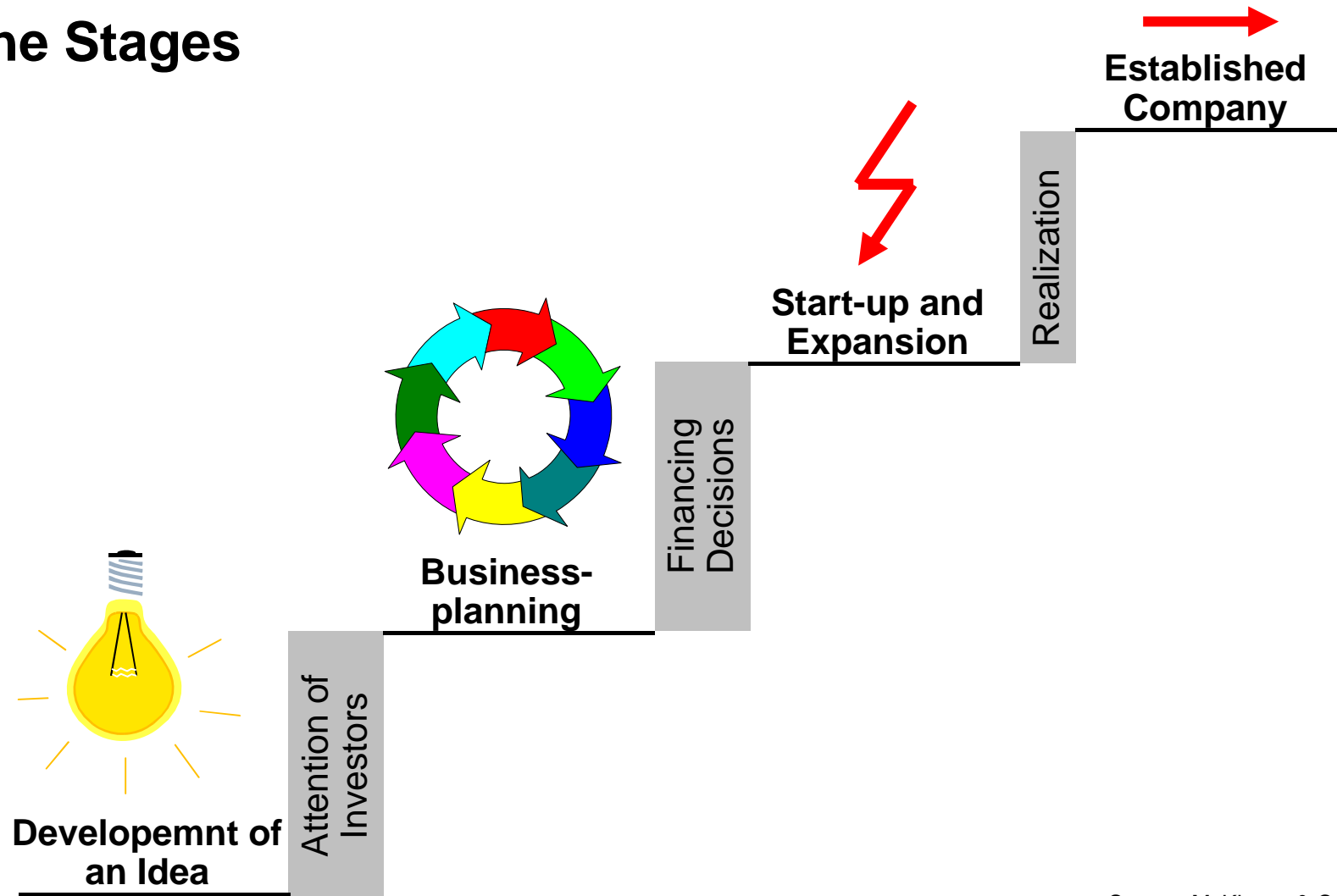
- no pollution
- no noise
- no petrol consumption
- no spare parts
- top convenience

Startup – Losses – Profit



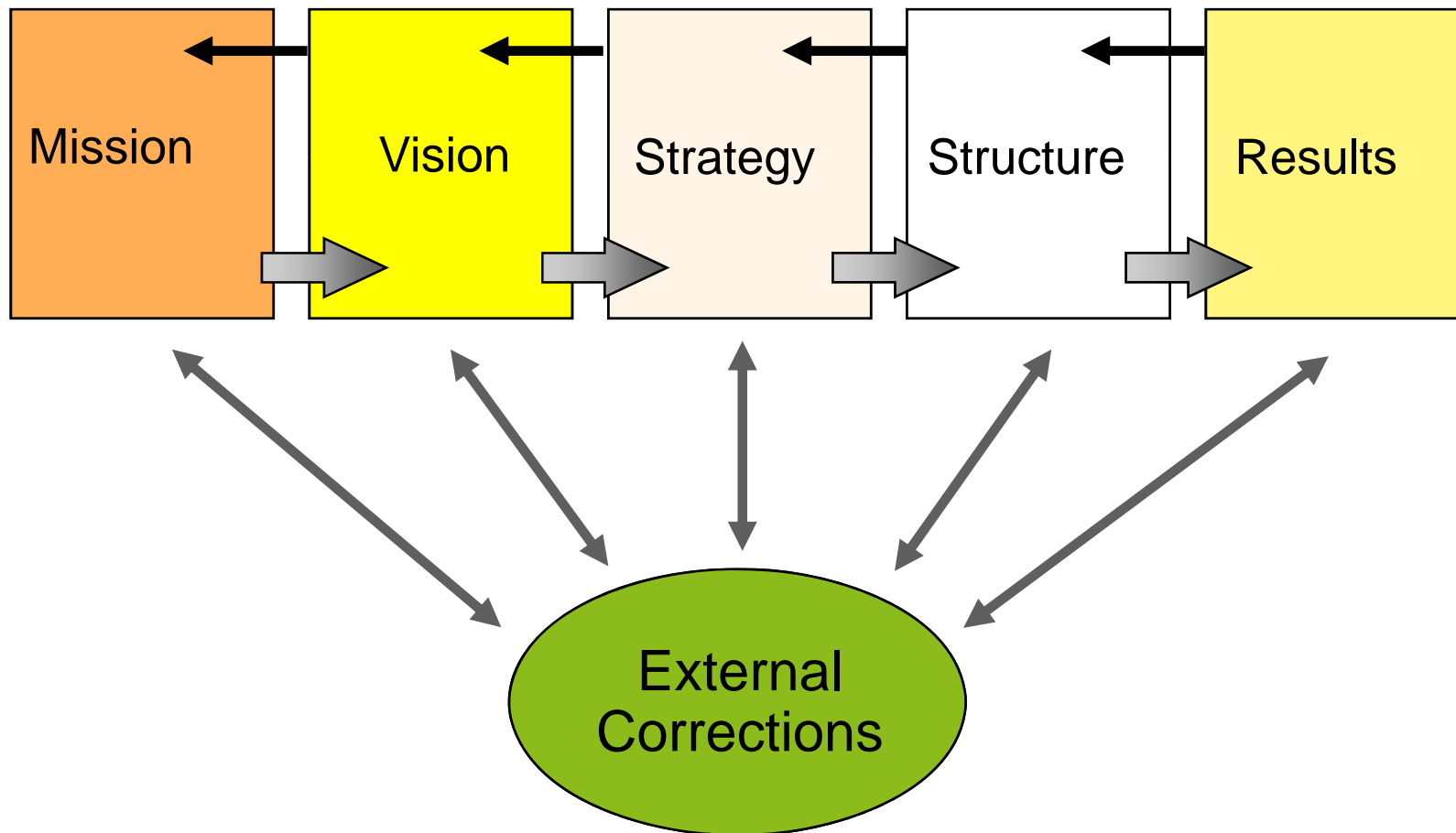
From an Idea to Success

The Stages

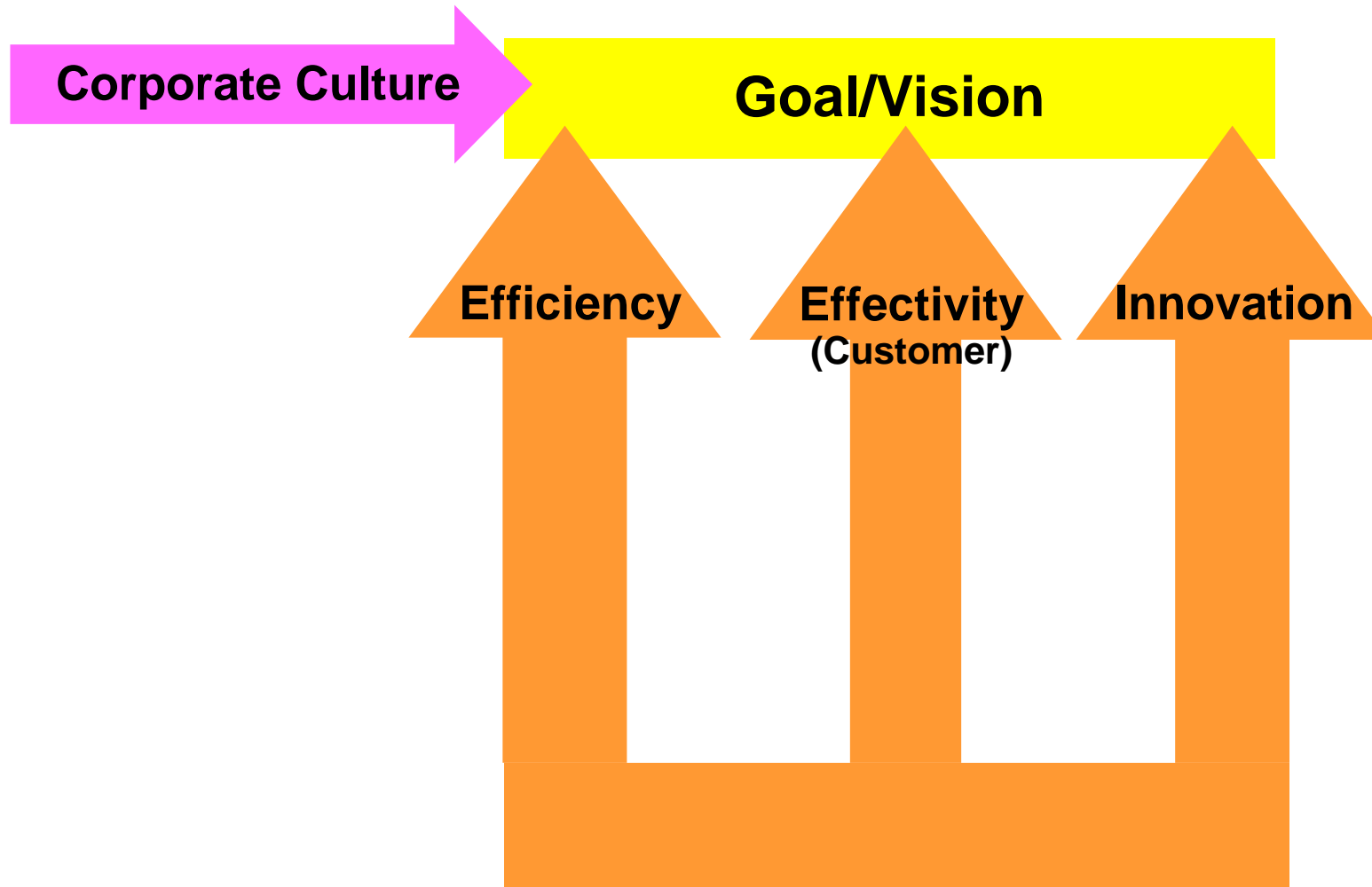


Source: McKinsey & Company, Inc.,

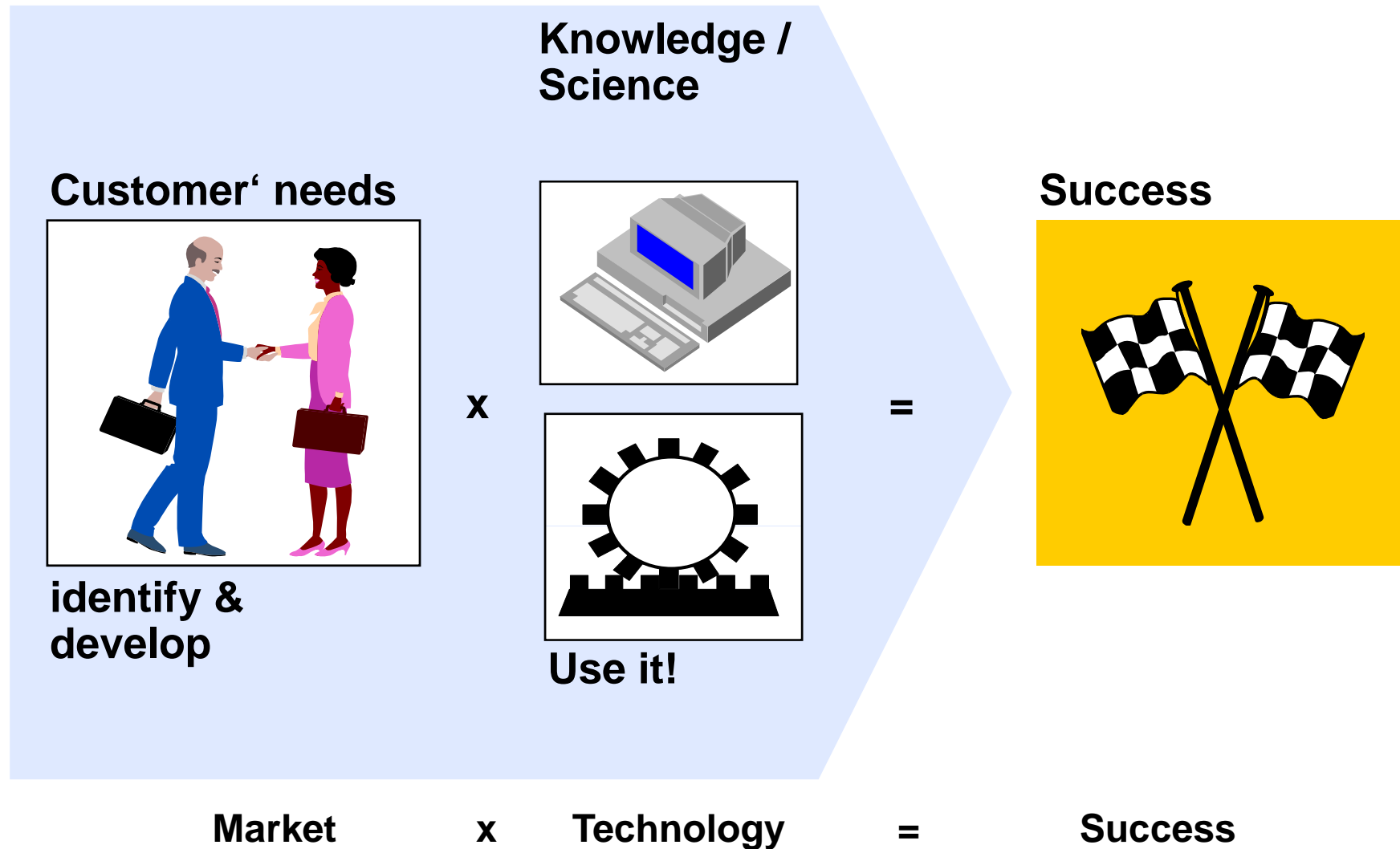
How does a Company reach its Goals? Coming up with a Strategy



Strategy

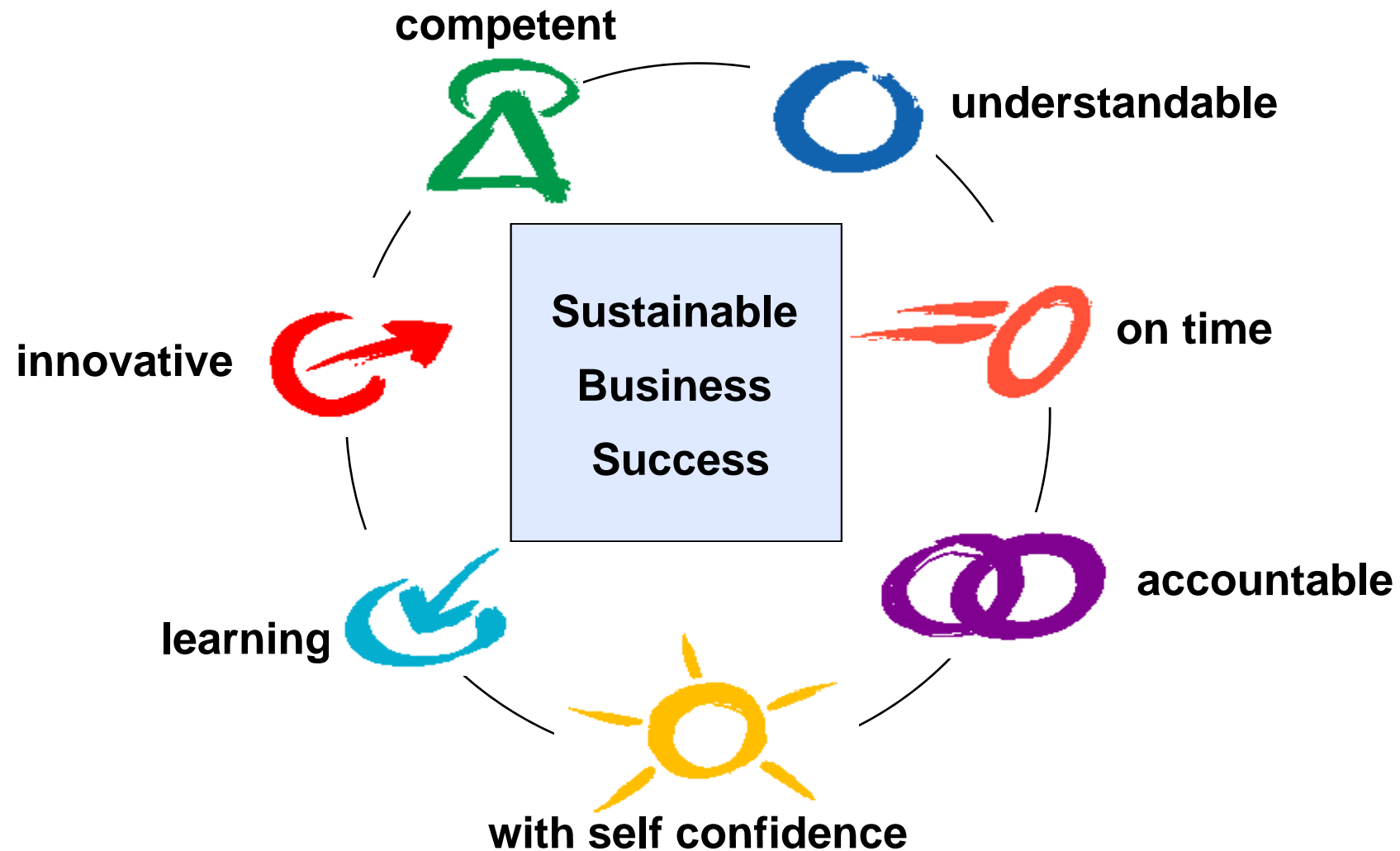


How do Corporations innovate?



Corporate Culture: Values and Attitude

Basis for lasting Success



Economics & Business Excellence (2)

The goals are often contradictory

- Sustainable Profits and Growth: short- vs longterm?
- Innovation, Motivation, Resources: where, how much?
- Play to the rules: How far? How long (specially if others don't)?
- Business Excellence Models provide structural help in an ever more complex Business Environment

The Entrepreneur's Goal is to WIN =

Business Excellence

=

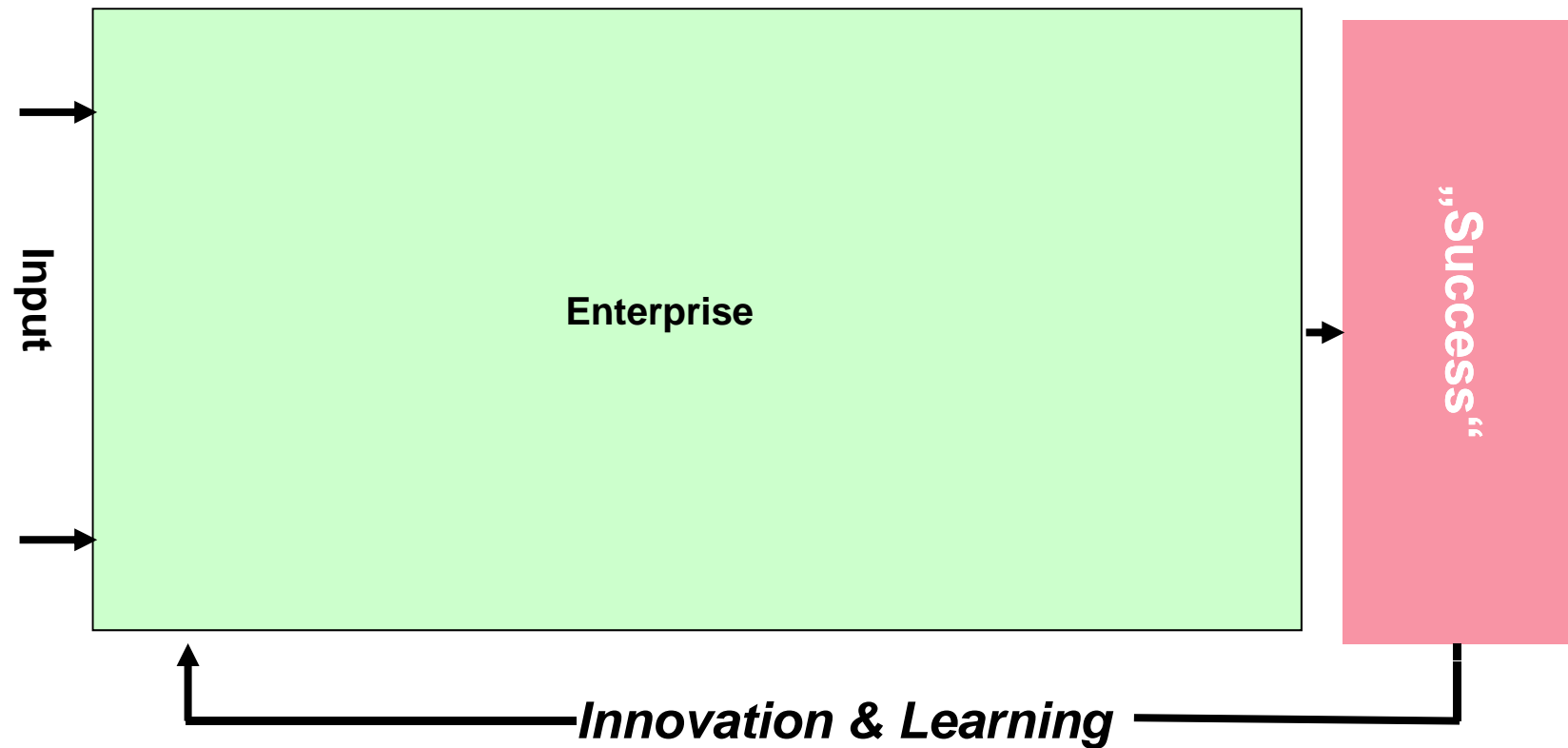
Effectivity
+ Efficiency
+ Innovation

+ Corp. Culture

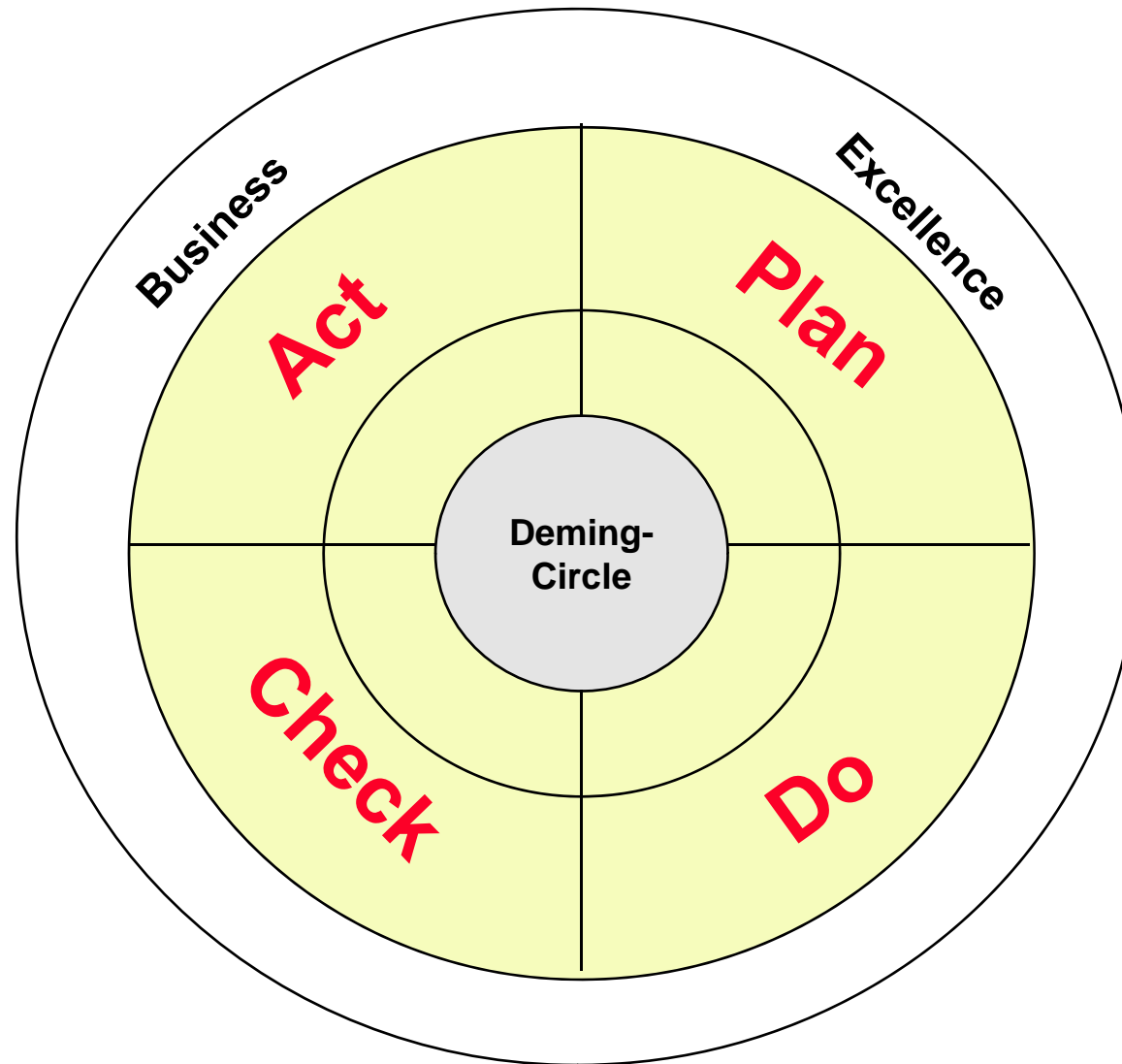


Business Excellence

Superior Quality of Business = Business Excellence

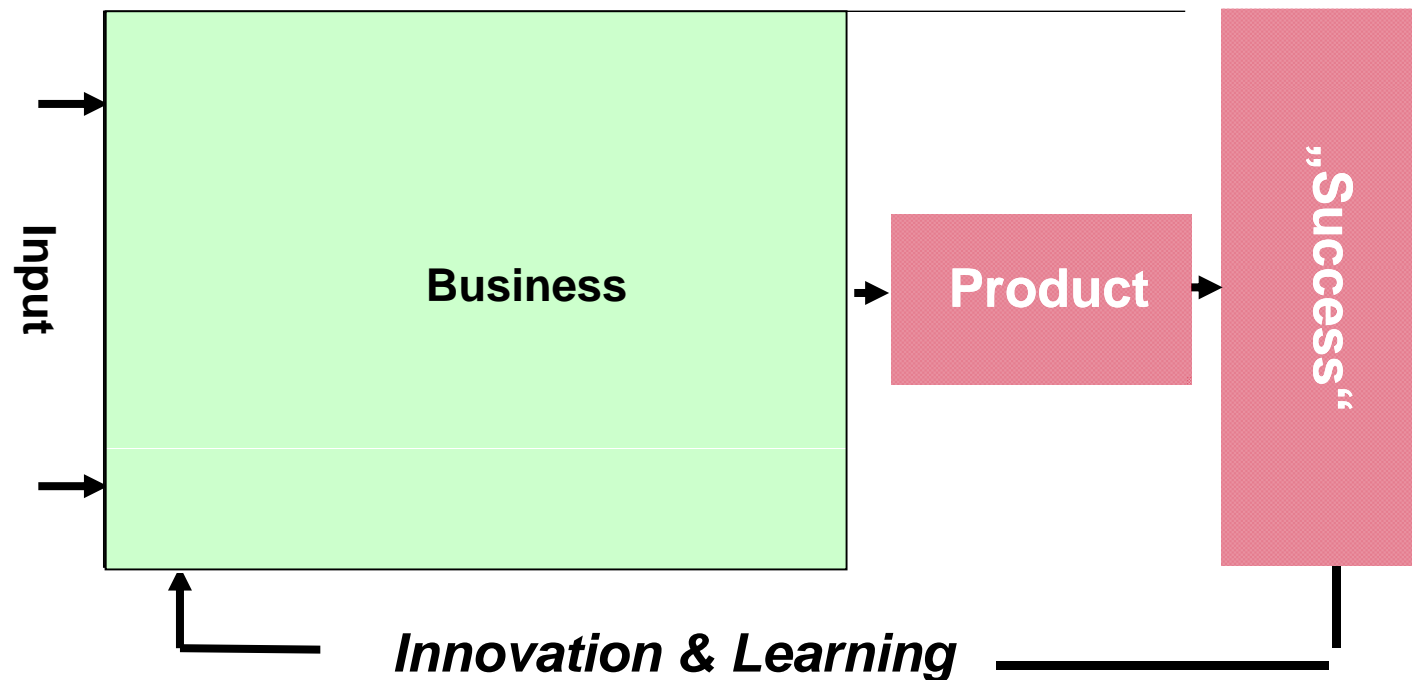


Successful Entrepreneurial Behavior



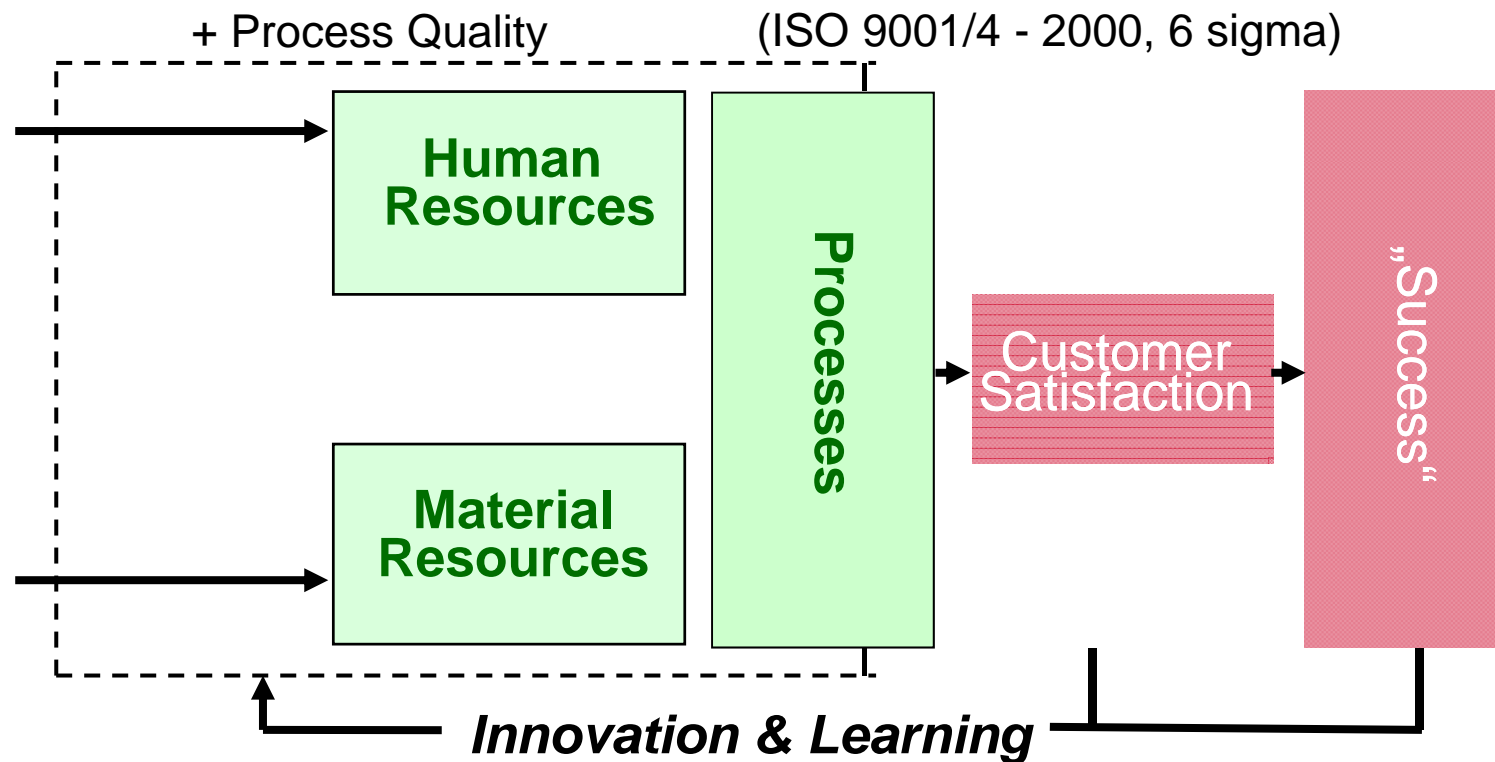
Step 1 towards Business Excellence: Product Quality

Superior Quality of Business = Business Excellence



(EFQM, Baldrige, Bal. SC.)

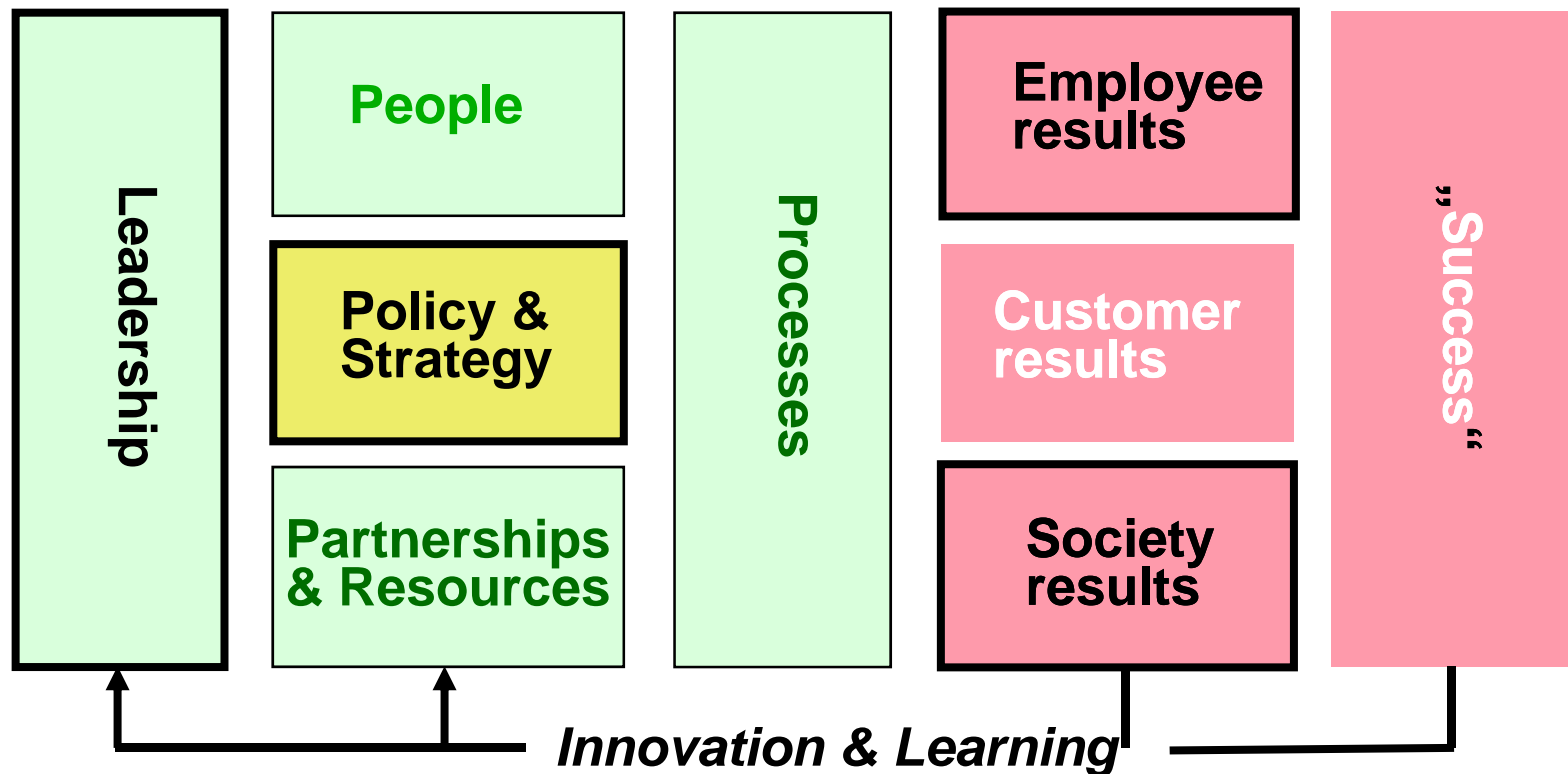
Step 2 towards Business Excellence: ...+ Process Quality



(EFQM, Baldrige, Bal. SC.)

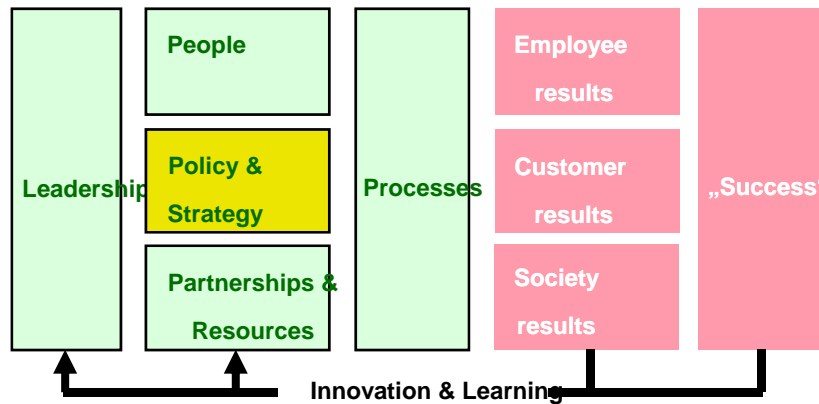
Business Excellence Models: Entrepreneurial Cockpits

Example : EFQM – Business Excellence Model

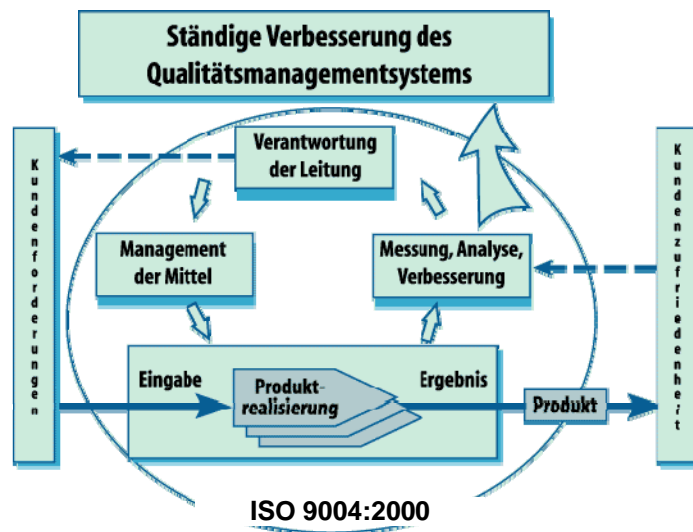
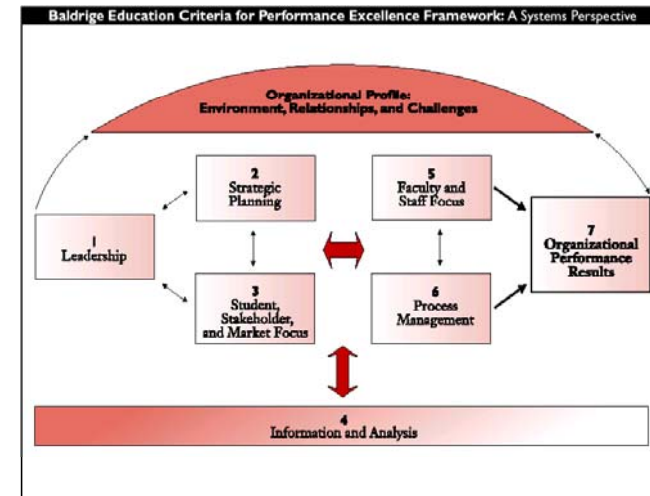


Overview: Business Excellence Models

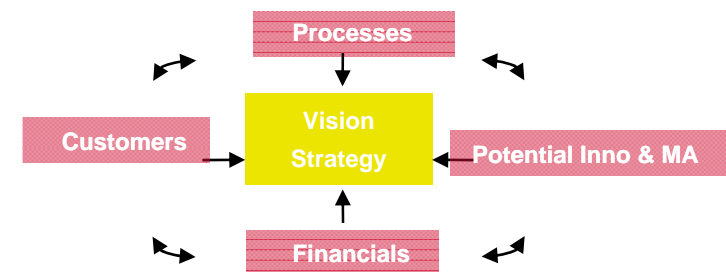
EFQM Business Excellence Model



Baldrige National Quality Award

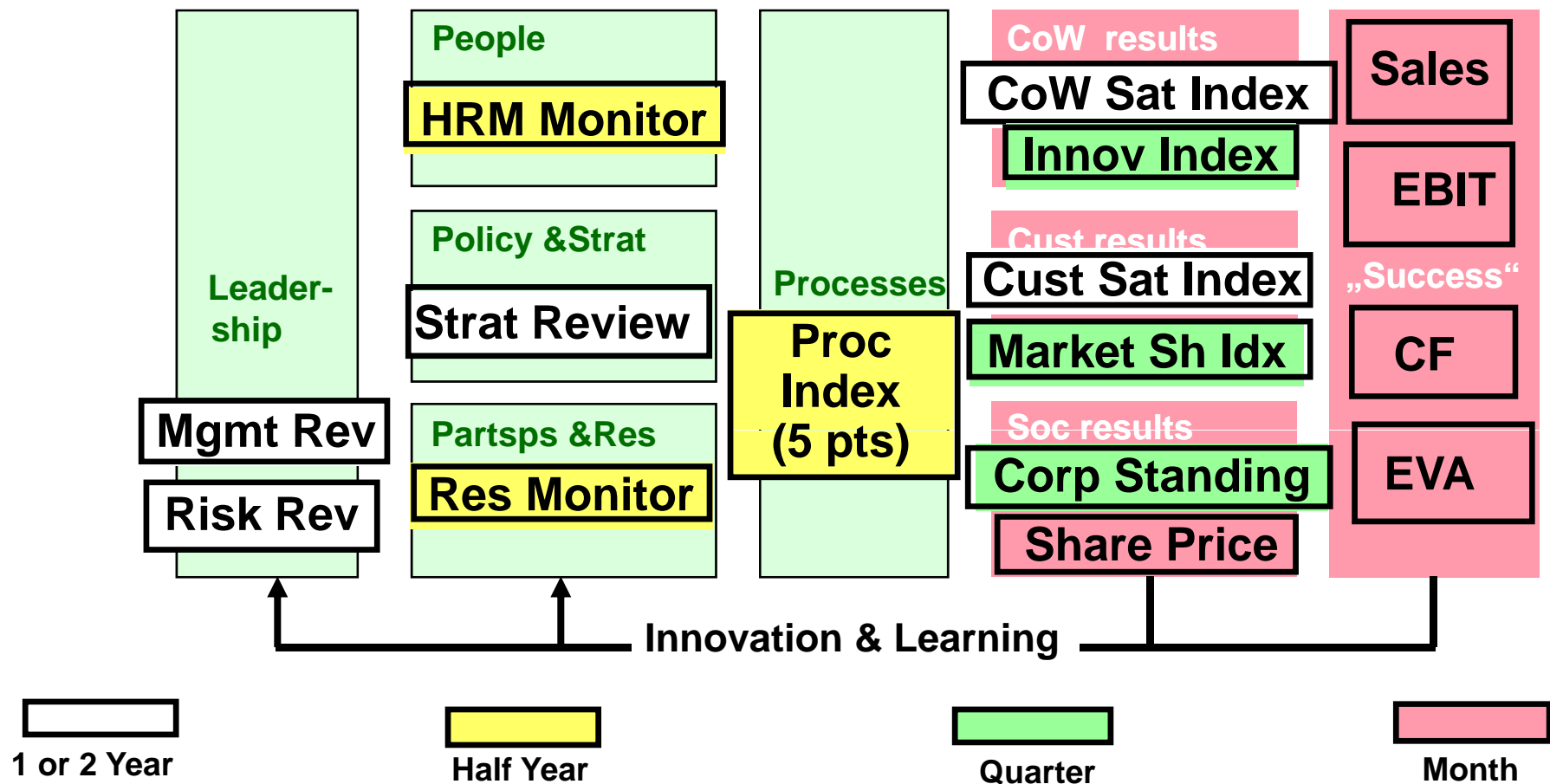


Balanced Scorecard



Business Excellence Model = CEO's Cockpit Structure

Example : EFQM – Business Excellence Model



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Business Excellence & Ecologics (1)

= Use and Misuse of Resources

= Resource – Efficiency

- a) a simple thought
- b) a look into the big world
- c) the entrepreneurial aspects

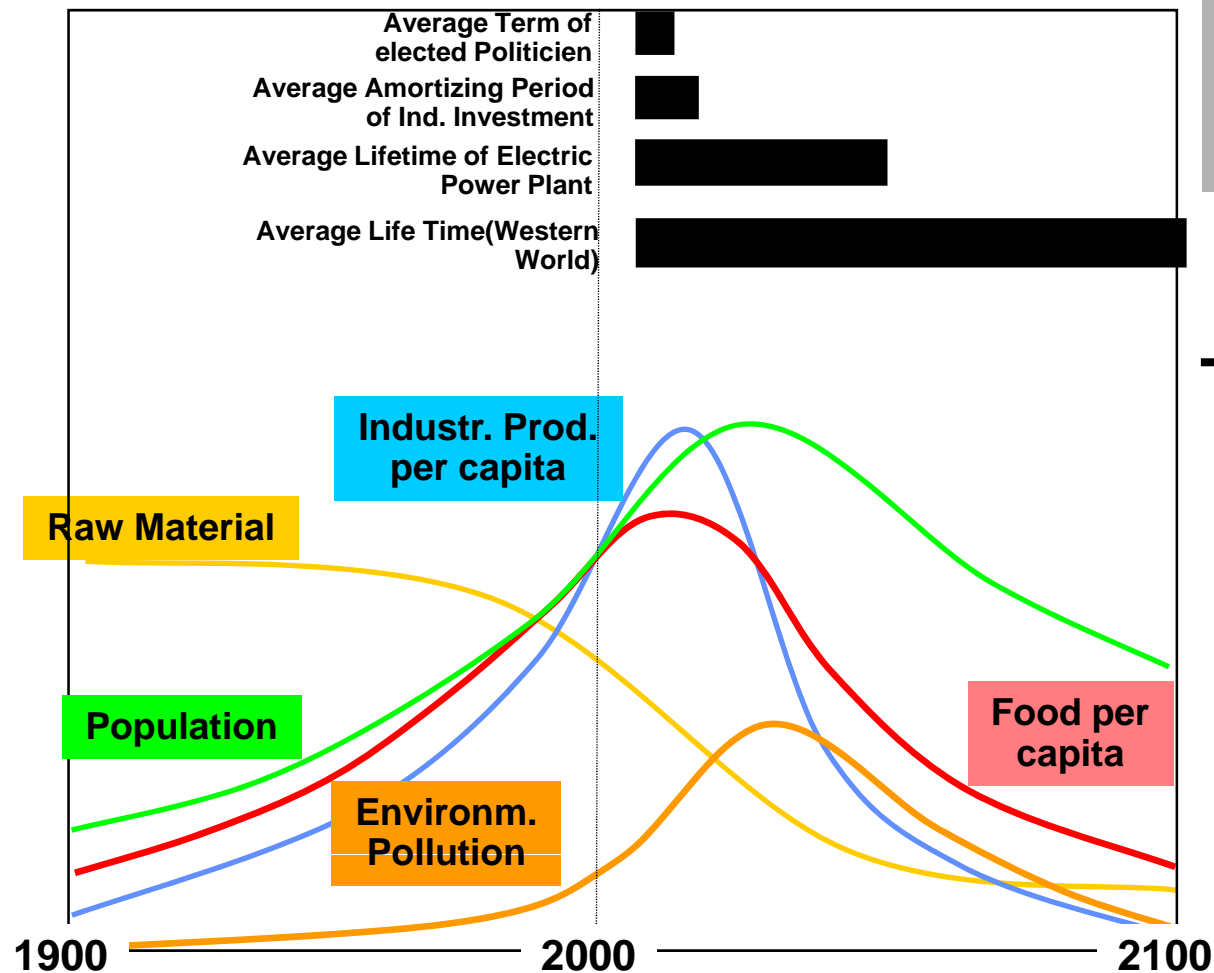
Business Excellence & Ecologics (2)

Driving Forces and Market Mechanism

- **to use fewer ressources**
= lower cost
- **to produce less pollution and less waste**
= lower cost
- **to create innovative solutions**
= growth

Why doesn't it work like that?

Club of Rome (A): Growth in the World System (1972) / 200 years



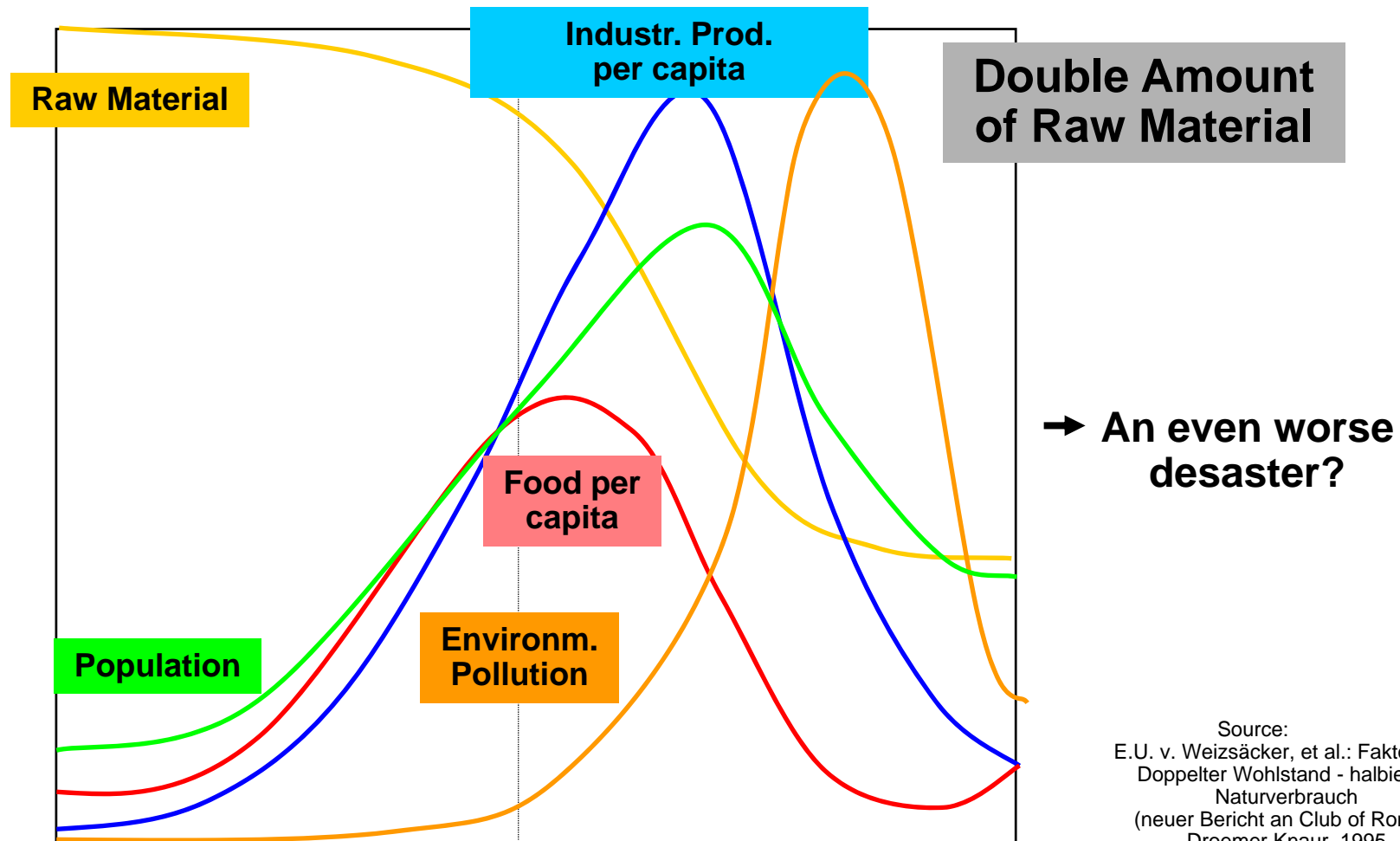
**„Standard Run“
Innovation Rate
2.5% p.a.**

→ How true?

How likely?

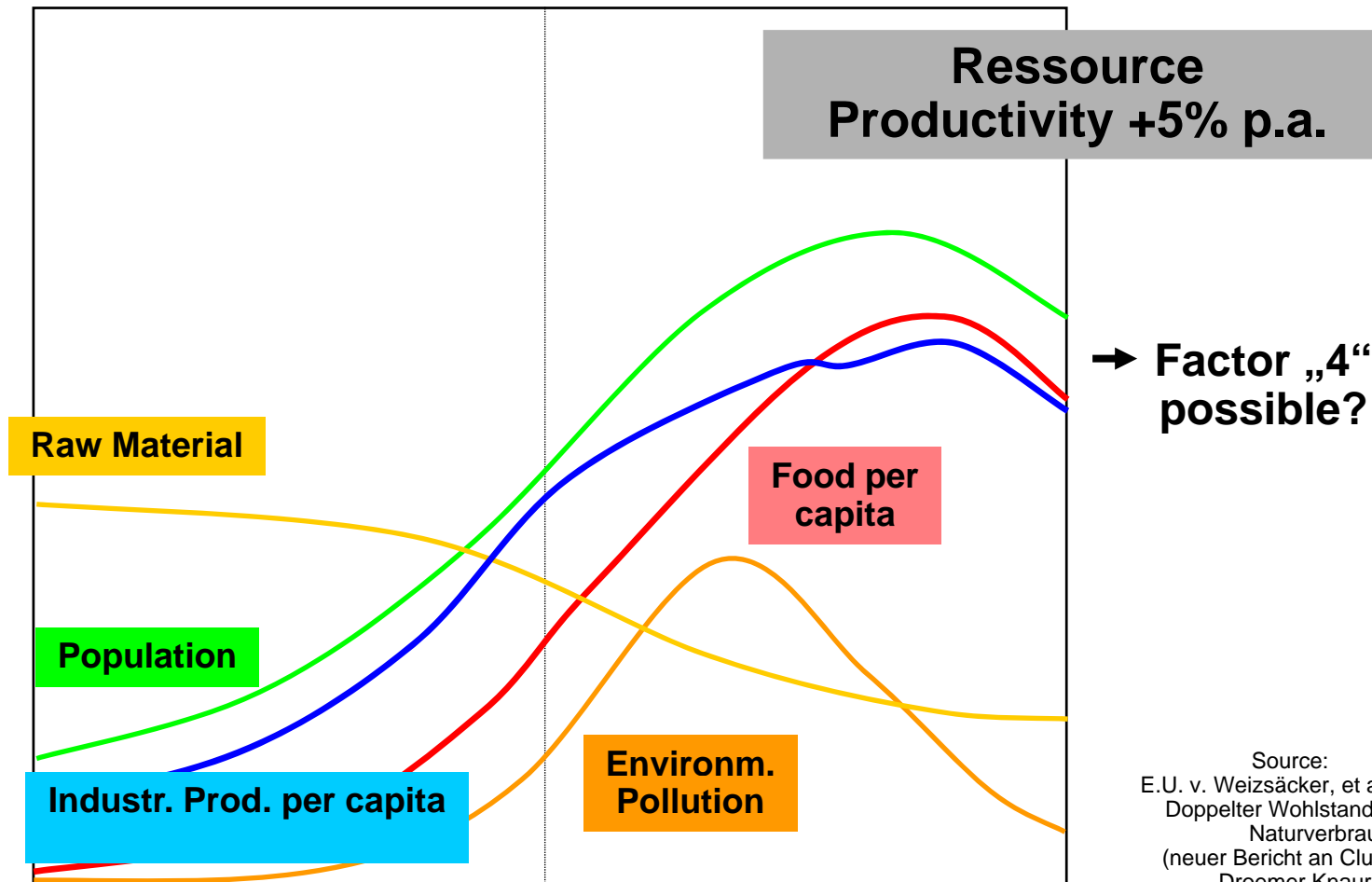
Source:
E.U. v. Weizsäcker, A. B. Lovins, L. H.
Lovins: Faktor Vier Doppelter
Wohlstand - halbiertes
Naturverbrauch, Droemer Knauer, 1995

Club of Rome (B): Growth in the World System /200 years



Source:
E.U. v. Weizsäcker, et al.: Faktor Vier
Doppelter Wohlstand - halbiert
Naturverbrauch
(neuer Bericht an Club of Rome),
Droemer Knaur, 1995

Club of Rome (C): Growth in the World System 1990 / 200 years



Source:
E.U. v. Weizsäcker, et al.: Faktor Vier
Doppelter Wohlstand - halbiertes
Naturverbrauch
(neuer Bericht an Club of Rome),
Droemer Knaur, 1995

Business Excellence & Ecologics: The Misuse, Waste & ... (3)



Business Excellence & Ecologics (4)

The Consequences : a Jungle of Regulations

- Prohibitions & tight controls**
- Self regulatory mechanisms**
- Market economic instruments**

Business Excellence & Ecologics (5)

Entrepreneurial View: opportunities and threats

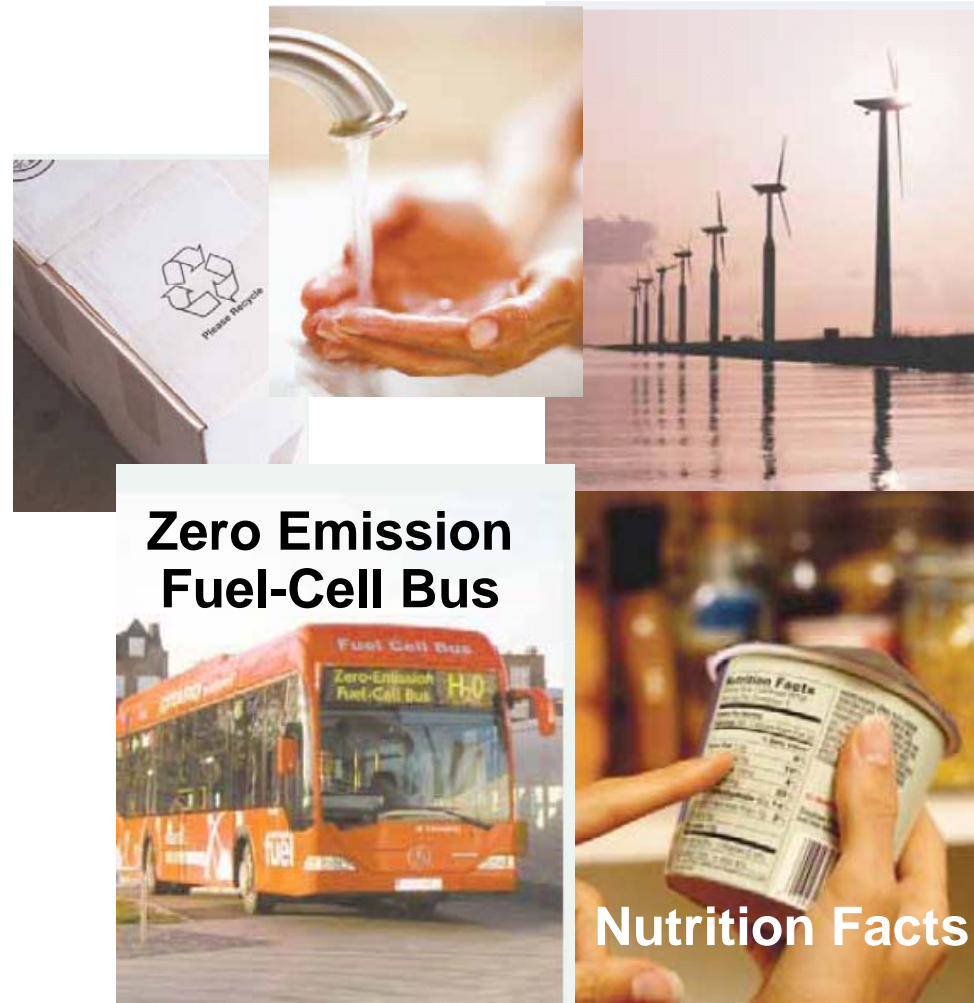
- ▶ **efficiency as defined by the external conditions**
- ▶ **use the available space to move**

Requests

- ▶ **reliable legal framework**
- ▶ **planable, foreseeable introduction**
- ▶ **transparency**

Business Excellence & Ecologics (6): The good use

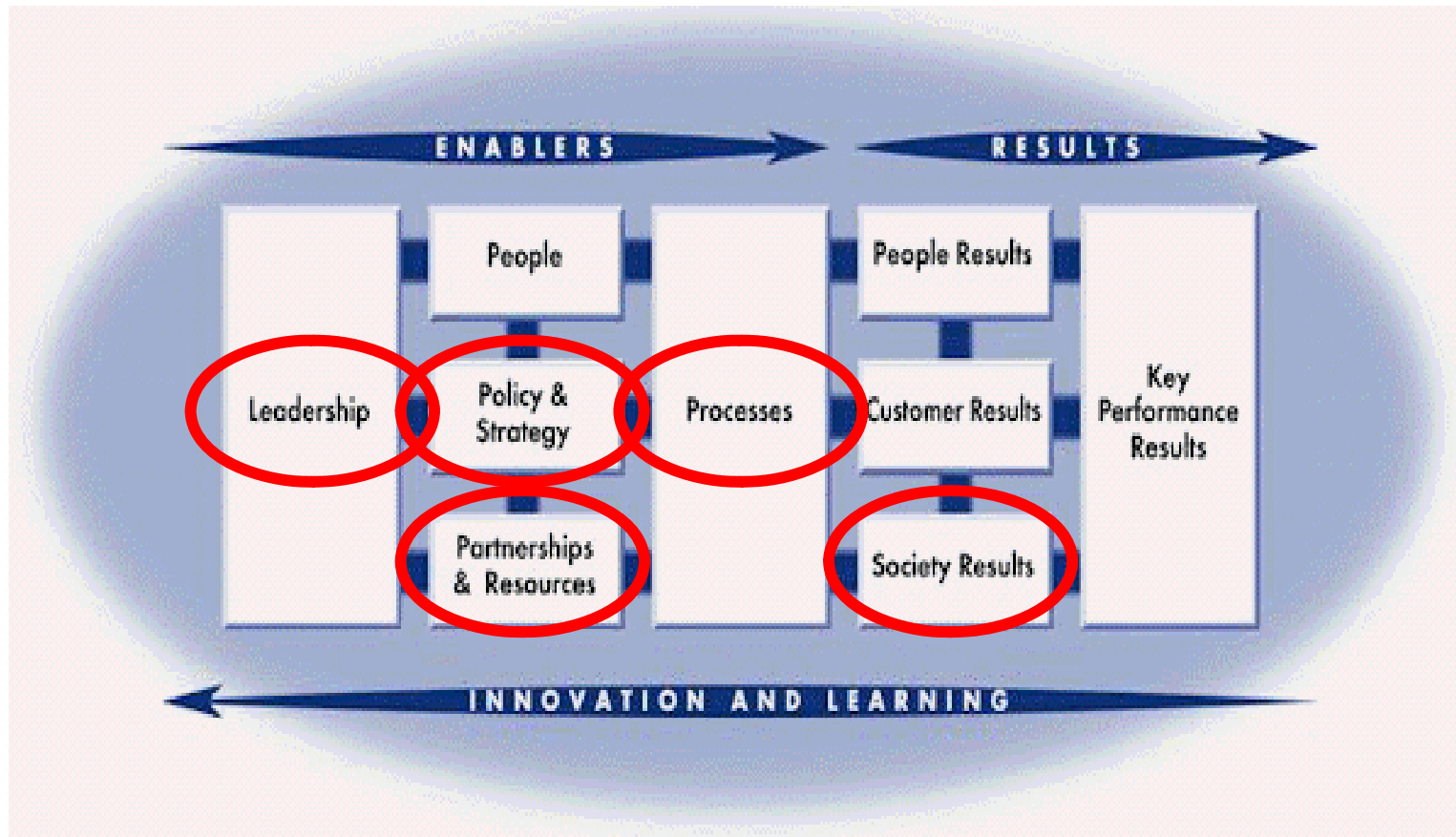
Green Funds



Business Excellence & Ecologics (7): Corporate Environmental Principles

- 1. Environment = part of the corporate strategy**
- 2. Environment = part of the management responsibility, all levels**
- 3. We aim for environmentally friendly products/services/processes**
- 4. All R&D include environmental aspects**
- 5. We aim for environmental friendly customer solutions**
- 6. We support smart ecological Initiatives**
- 7. We aim for open dialogue on ecology**

Business Excellence & Ecologics (8): The Checkpoints in the EFQM-Model



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Business Excellence & Ethics (1)

= Individual Behavior

= Good Corporate Citizenship

= Good Corporate Governance

Business Excellence & Ethics (2)

Misbehaviour

The Misbehavior of a few

- damages, cripples or kills companies or organisations
- imposes an avalanche of regulations on all



Lehman Bros. (a.o.) / Banking

Andersen / Auditors

Enron / Energy

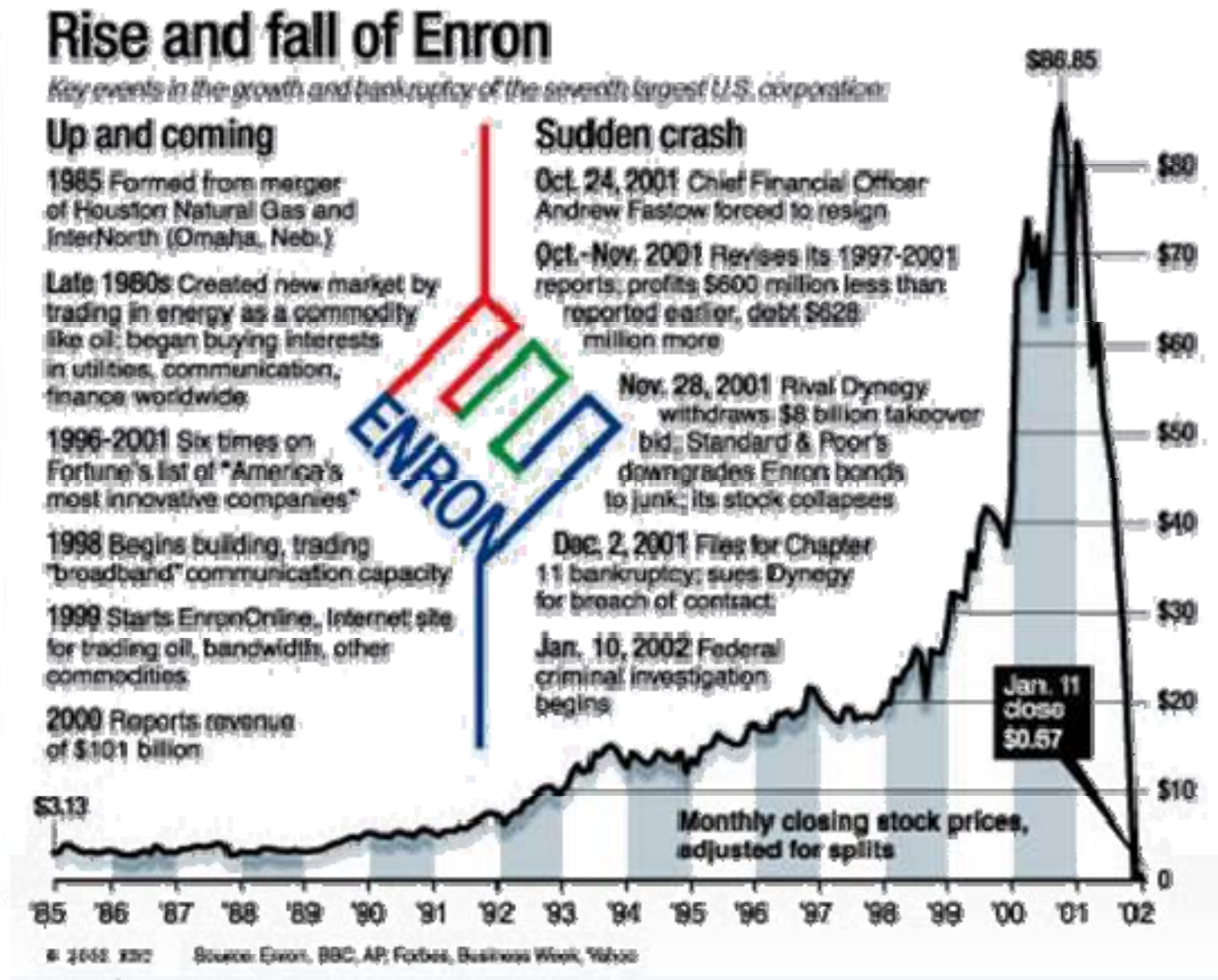
Parmalat / Food

Worldcom / Telecom

.....

Endless possibilities.™

Case: Enron

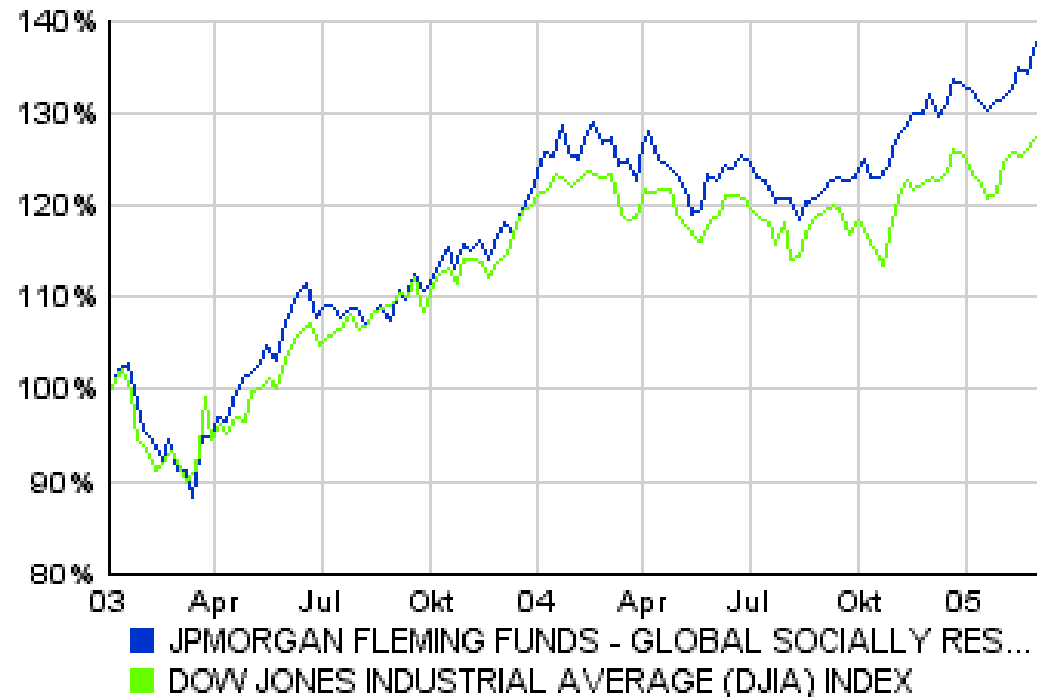


Business Excellence & Ethics (3): Hidden Misbehaviour

- Corruption
- Child Labour
- Criminal Organisations
- ...

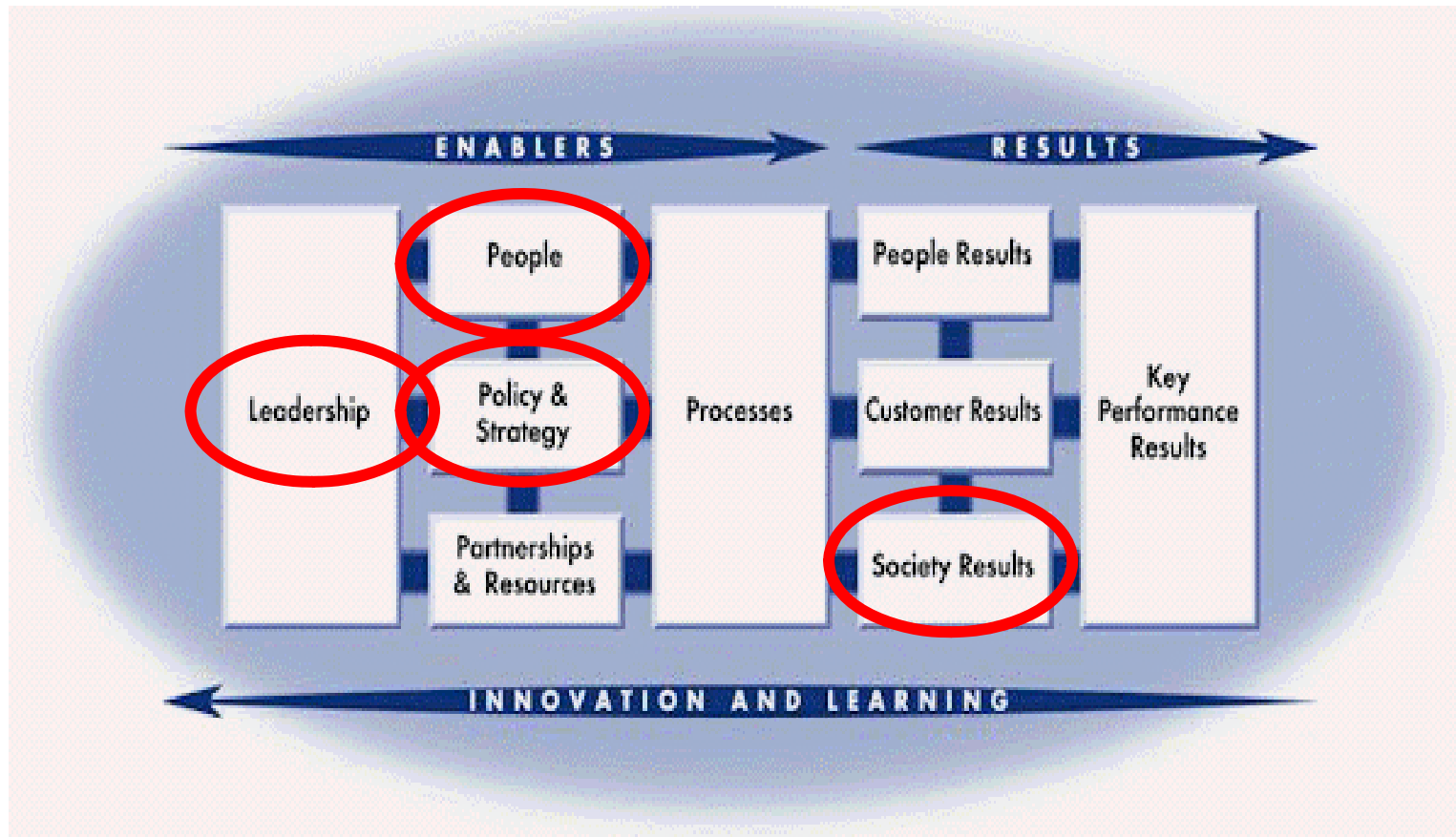


Business Excellence & Ethics (4): Good Behaviour



**Example: JPMORGAN FLEMING FUNDS
GLOBAL SOCIALLY RESPONSIBLE FUND A**

Business Excellence & Ethics (5): The Checkpoints in the EFQM-Model



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Business Excellence & Sustainability Entrepreneurial Implications (1)

Rules for Reporting / Compliance on the rise:

- **Financials (GAAP, IAS)**
- **Ecology reporting**
- **Corporate governance reporting**
- **Sourcing and supply chain**
- **...**

Business Excellence & Sustainability Entrepreneurial Implications (2)

- „to only follow trodden paths“ brings no competitive advantage
- Make your convictions and actions known to others in a positive, proactive way

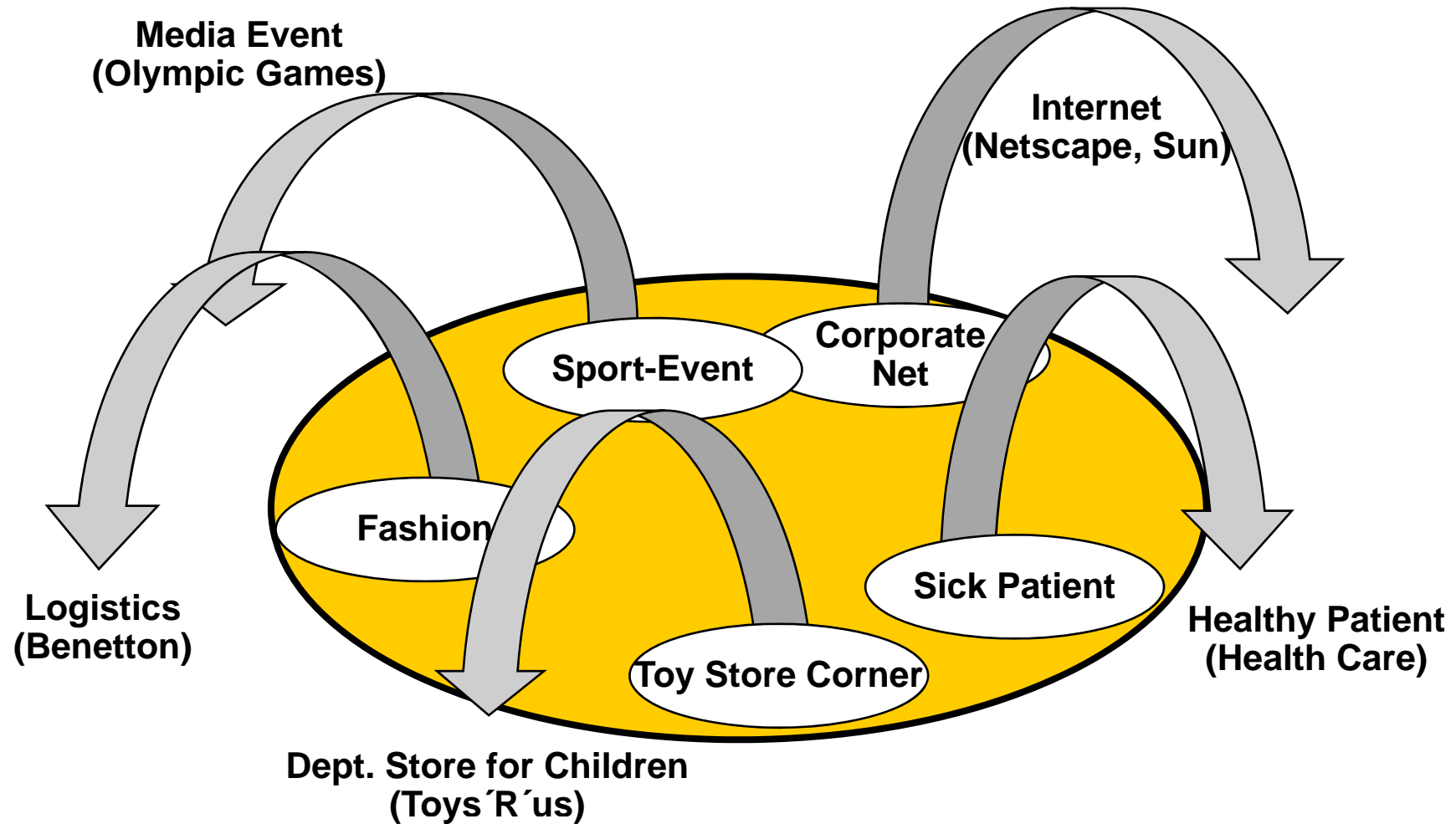


e.g.: **Nestlé**
Toyota
LEM
Ammann

...

Sustainability in SCM
Fuel Savings
Swiss & European Suppliers of electr. Comp
Construction Equipment

Visions: To change the rules = to escape the common belief



Dow Jones Sustainability Group Index

The Index of
Dow Jones Indexes and
SAM Sustainability Group

Source: SAM Sustainability Group

The DJSGI Methodology

World's first systematic methodology for identifying leading sustainability companies worldwide

- Consistent (one methodology, primary research)
- Industry specific criteria
- Full coverage of economic, social and environmental criteria
- Third-party verification (PricewaterhouseCoopers)
- Yearly review to reflect state-of-the-art

Source: SAM Sustainability Group

DJSI – Sustainability Trends

– Social - Cultural Trends

- **Transparency**
- **Healthy living**
- **Better living standards**
- **Rich / poor gap**
- **Equal rights**
- **Fair trade**

– Environmental Trends

- **Ecological risk awareness**
 - **Pollution and waste**
 - **Global Warming**
 - **Population growth**
 - **Scarcity of Natural Resources**
 - **Loss of bio-diversity**

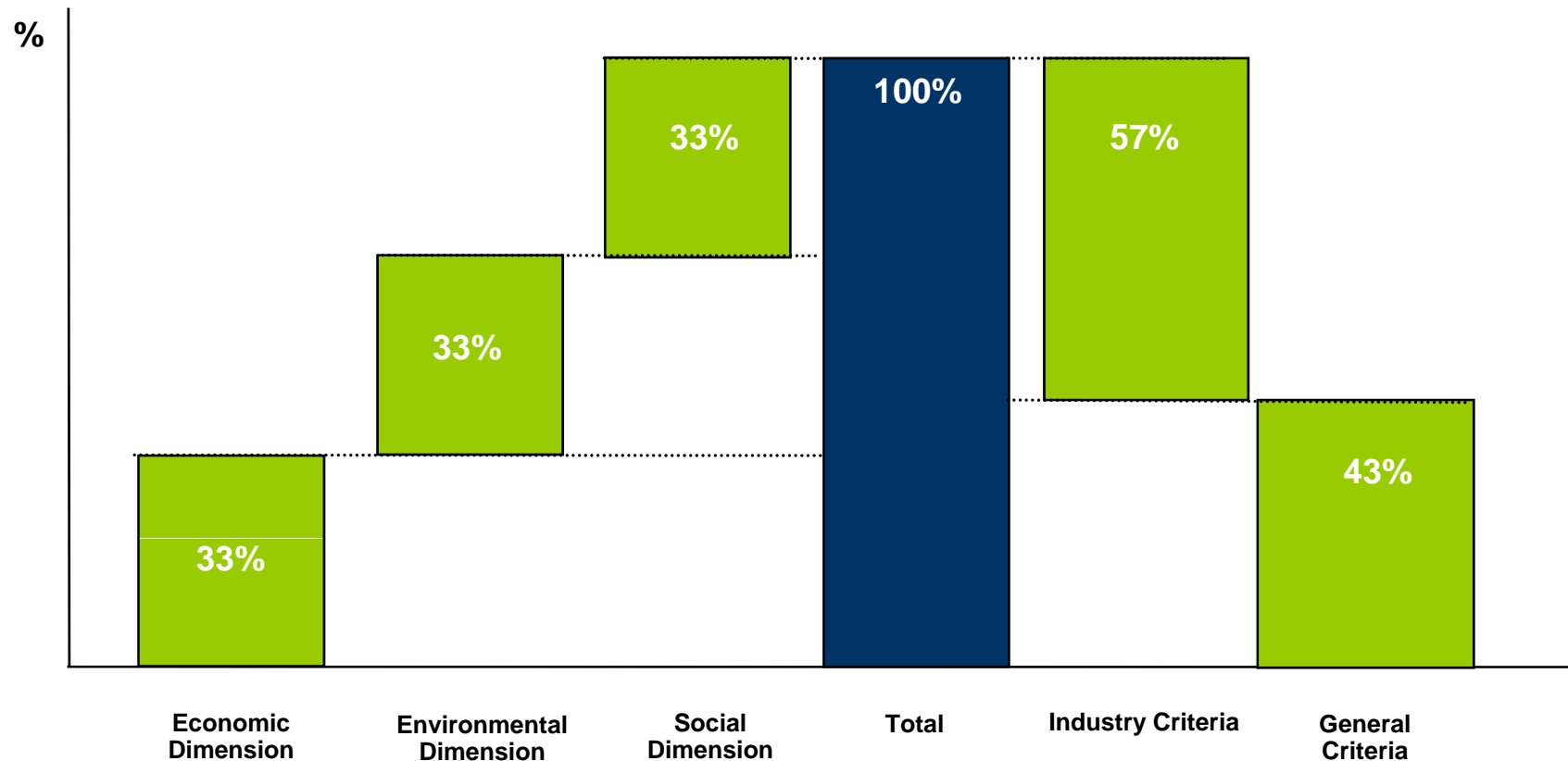
– Economic Trends

- **Technological Change & Innovation**
- ❖ **Shorter Product life-cycles**
 - ❖ **Speed & Flexibility**
 - ❖ **Life-long learning**
 - ❖ **Intellectual capital**
- ❖ **Virtual living and working**

Source: SAM Sustainability Group

DJSI Criteria (I)

Overview



Economic ecologic and social weightings vary for different industry groups. The chart represents average values..

Source: SAM Sustainability Group

DJSI – Criteria for Analysis (II)

| Economic | <i>Weight (in%)</i> |
|---|--------------------------|
| Corporate Governance | 6.0 |
| Risk- and Crisis Management | 6.0 |
| Behaviour codex / Compliance / Anti Corruption | 6.0 |
| Industry spezific Criteria | Industry spezific |
| Ecologic | |
| Environmental reporting | 3.0 |
| Industry spezific Criteria | Industry spezific |
| Sozial | |
| Development of Human Captial | 5.5 |
| Co-worker relations | 5.5 |
| Attitude re Jobs | 5.0 |
| Social Engagement / Philanthropy | 3.0 |
| Social reporting | 3.0 |
| Industry spezific Criteria | Industry spezific |

Source: SAM Sustainability Group

DJSI World – Selection 2008 / 9

Dow Jones Global Index

2,500 largest companies
57 DJSI Industry Groups
51 countries

Component Selection

Top 10% of companies
in terms of sustainability
in each industry group

15% target market cap coverage
in each industry group

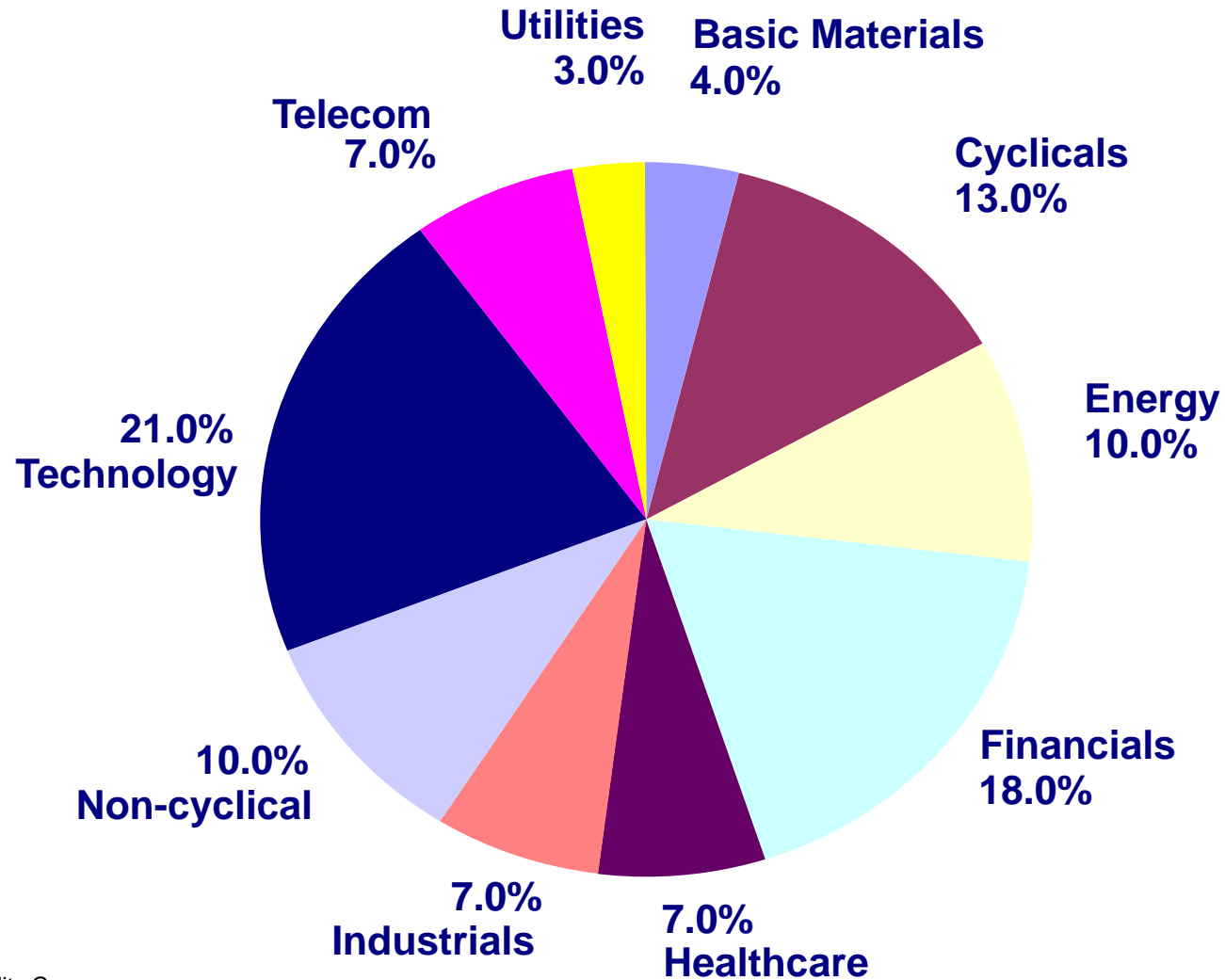
DJSI World

317 Components
57 DJSI industry groups
27 countries

Additions: 33 (9.2% mcap)
Deletions: 33 (3.5% mcap)

Source: SAM Sustainability Group

Sector Allocation as of October, 31, 2005



Source: SAM Sustainability Group

DJSI World – Market Sector Leaders 2008 / 9

| | |
|---------------------------|---|
| Automobiles | Toyota |
| Banks | Westpac Banking Corp. |
| Basic Resources | Alcan |
| Chemicals | DSM |
| Construction | AMEC |
| Cyclical Goods & Services | Koninklijke (Royal) Philips Electronics |
| Energy | Statoil |
| Financial Services | British Land |
| Food & Beverage | Unilever |

Source: SAM Sustainability Group

DJSI World – Marketsector Leaders

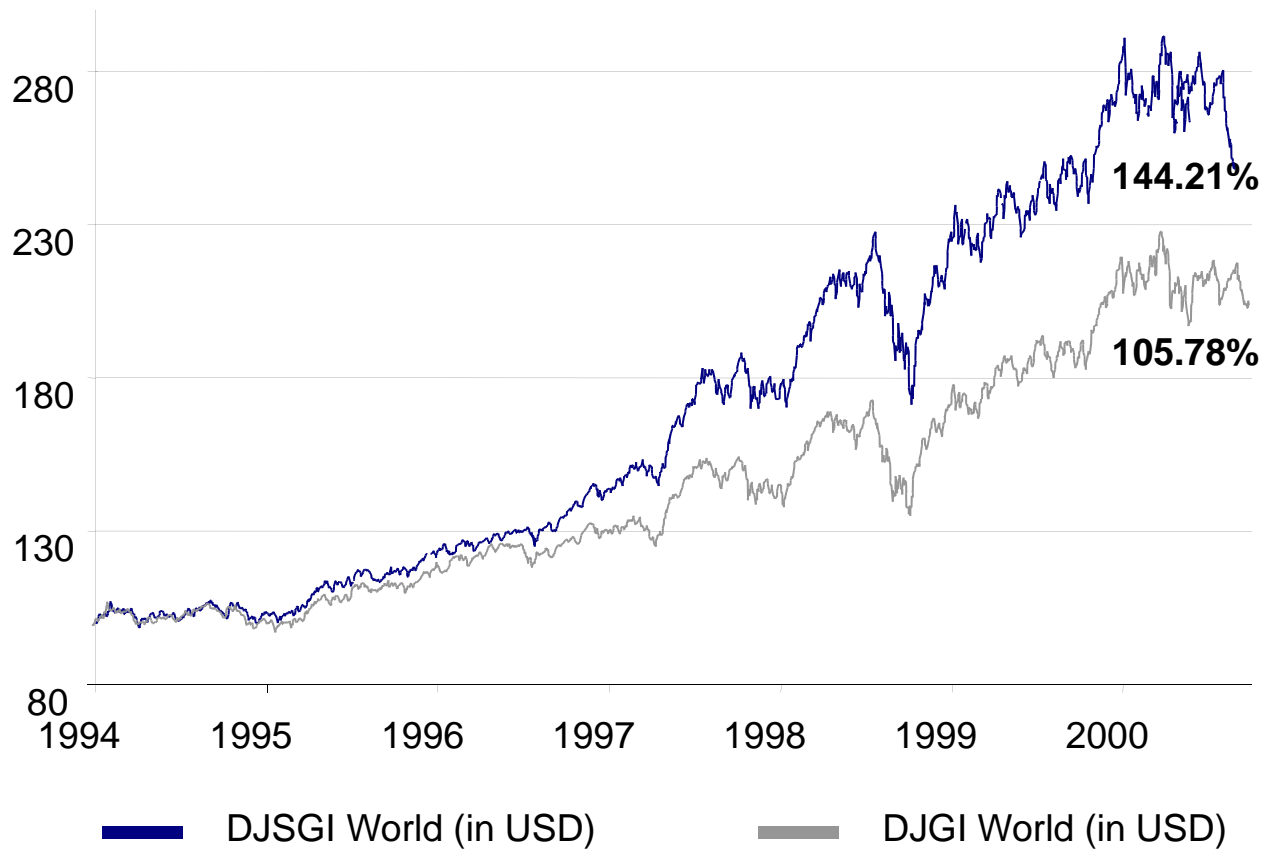
continued

| | |
|------------------------------|------------------|
| Healthcare | Novozymes |
| Industr. Goods & Services | 3M |
| Insurance | Swiss Re |
| Media | Pearson |
| Non-Cycl. Goods & Retail | Procter & Gamble |
| | Marks & Spencer |
| Technology | Intel |
| Telecommunications | BT Group |
| Utilities | Severn Trent |

Source: SAM Sustainability Group

DJSGI World vs. DJGI

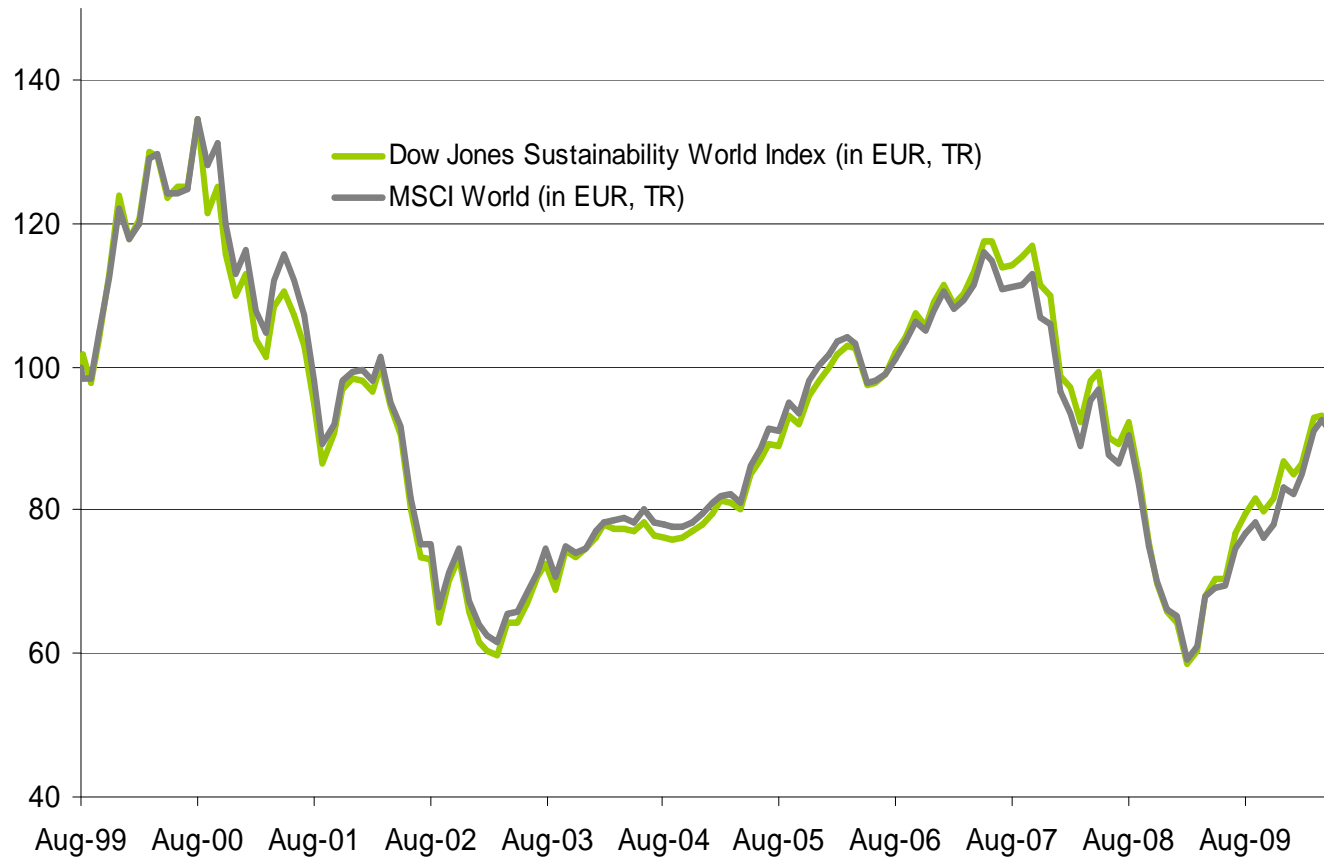
(Dec 93 - Oct 00, Euro, Prince Index)



Source: SAM Sustainability Group

DJSI World – Performance

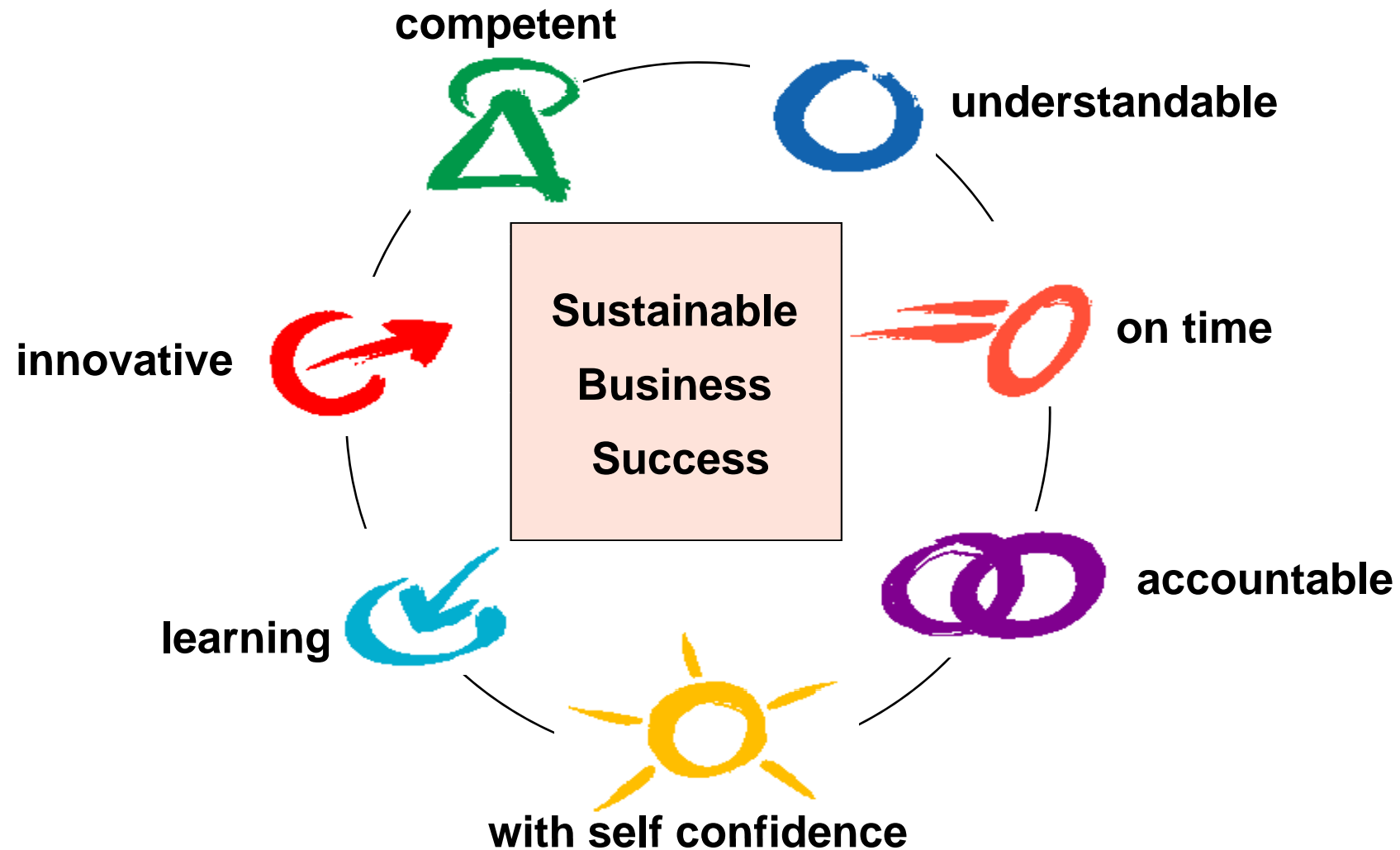
Since launching in 08/99 – 06/10 (EUR, Performanceindex)



Source: SAM Sustainability Group

Corporate Culture:

Values and Attitude Basis for lasting Success



Team Assignments 1 - 3

Historical Aspects

You have heard about

- the findings of the Club of Rome
- the entrepreneurial initiative „Changing Course“
- the consequential concept „Financing Change“

- ***Why did their impact „die“ within a few years?***
- ***What do we have to learn from these initiatives?***
- ***How can we get the entrepreneurs to make the necessary changes happen?***

Team Assignments 4 - 6

Entrepreneurial Aspects / New Ventures

Please study with your team one of the three business cases

- i-woods
- Flimson
- Ecospeed

- ***What is the possible impact for the climate change?***
- ***What do you suggest in order to support such actions?***
- ***How can you get them known and pushed by the society?***

Team Assignments 7 - 12

Business Aspects / Companies

Please study with your team one of the business reports according to your choice

- ***What does „your“ company do in view of the climate change and/or sustainability / resource efficiency?***
- ***How do you assess these activities and the reporting?***
- ***Are consequences made visible?***
- ***What are the suggestions to „your“ company to do more for sustainability and make it better known to the society?***
- ***What consequences would this have on the future business and for the sustainability at large?***

Team Assignments

Schedule and Procedure

1. Study your assignment carefully
2. Come up with a concept how you want to deal with the assignment (who does what for the best team effort)
3. Study the documentation in view and according to your concept
4. Prepare for your **oral presentation** MAX 5 MIn:
 - set the problem and the surroundings
 - give your assessment based on findings & facts. **The arguments are the most important part of your input!**
 - present your conclusion / recommendations
5. Use a comprehensive mix of oral presentation and back-up with figures, pictures and charts